Phillips County Health Systems
A Component Unit of Phillips County, Kansas

Financial Statements
March 31, 2021 and 2020

Together with Independent Auditor's Report

Phillips County Health Systems

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Independent Auditor's Report

To the Board of Trustees of
Phillips County Health Systems
Phillipsburg, Kansas:

We have audited the accompanying financial statements of Phillips County Health Systems (PCHS), a component unit of Phillips County, Kansas, which comprise the statements of net position as of March 31, 2021 and 2020, the related statements of revenue, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise PCHS' basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of PCHS as of March 31, 2021 and 2020 and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Management has omitted management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Seim Johnson, LLP

Omaha, Nebraska,
August 12, 2021.

Phillips County Health Systems

Statements of Net Position
March 31, 2021 and 2020

	2021	2020
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,235,781	957,379
Receivables -		
Patients, net of allowance for doubtful accounts of $642,720 in 2021 and $524,192 in 2020, respectively	1,744,887	2,004,150
Other	77,361	54,464
Inventories	245,041	267,189
Prepaid expenses	138,452	49,169
Estimated third-party payor settlements	286,129	--
Total current assets	5,727,651	3,332,351
Noncurrent assets:		
Assets limited as to use	155,500	181,290
Investments	9,500	9,500
Scholarships receivable	161,751	105,986
Capital assets, net	2,689,362	2,183,879
Total noncurrent assets	3,016,113	2,480,655
Total assets	$ 8,743,764	5,813,006
LIABILITIES		
Current liabilities:		
Line of credit	$ --	200,000
Current portion of long-term debt	125,253	237,738
Accounts payable -		
Trade	650,503	1,127,134
Capital assets	176,800	--
Accrued salaries, vacation, benefits and payroll taxes	1,262,347	1,147,118
Accrued interest payable	--	5,990
Estimated third-party payor settlements	--	394,487
Refundable advances - CARES Act Provider Relief Funds	1,090,027	--
Total current liabilities	3,304,930	3,112,467
Noncurrent liabilities:		
Long-term debt, net of current portion	402,704	377,760
Total liabilities	3,707,634	3,490,227
NET POSITION		
Net investment in capital assets	1,984,605	1,568,381
Restricted for capital acquisitions or operations	155,500	181,290
Unrestricted	2,896,025	573,108
Total net position	5,036,130	2,322,779
Total liabilities and net position	$ 8,743,764	5,813,006

See notes to financial statements

Phillips County Health Systems

Statements of Revenue, Expenses and Changes in Net Position
For the Years Ended March 31, 2021 and 2020

	2021	2020
OPERATING REVENUE:		
Net patient service revenue, net of provision for bad debts of $371,134 in 2021 and $297,578 in 2020	$ 12,403,173	12,321,520
Other operating revenue	1,599,288	1,884,936
Total operating revenue	14,002,461	14,206,456
OPERATING EXPENSES:		
Salaries and wages	7,512,927	6,806,409
Employee benefits	1,710,677	1,562,340
Supplies and other expenses	3,622,444	3,501,068
Professional fees and purchased services	2,787,008	2,350,179
Depreciation and amortization	432,570	424,496
Total operating expenses	16,065,626	14,644,492
OPERATING LOSS	(2,063,165)	(438,036)
NONOPERATING REVENUE (EXPENSE):		
Property taxes	456,504	457,841
Noncapital grants and contributions	4,368,901	339,126
Investment income	11,120	13,529
Interest expense	(60,009)	(68,710)
Total nonoperating revenue, net	4,776,516	741,786
INCREASE IN NET POSITION	2,713,351	303,750
NET POSITION, BEGINNING OF YEAR	2,322,779	2,019,029
NET POSITION, END OF YEAR	$ 5,036,130	2,322,779

See notes to financial statements

Phillips County Health Systems

Statements of Cash Flows
For the Years Ended March 31, 2021 and 2020

	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	$ 11,981,820	12,323,407
Cash paid to suppliers and contractors	(7,008,983)	(6,057,245)
Cash paid for employee salaries and benefits	(9,108,375)	(8,258,377)
Other receipts and payments, net	1,575,711	1,792,528
Net cash used in operating activities	(2,559,827)	(199,687)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property taxes	456,504	457,841
Noncapital grants and contributions	4,424,248	339,126
Net cash provided by noncapital financing activities	4,880,752	796,967
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(761,253)	(153,810)
Proceeds from sale of capital assets	680	145,506
Principal paid on line of credit	(200,000)	(100,000)
Proceeds from issuance of long-term debt	1,198,330	--
Principal paid on long-term debt	(251,191)	(230,571)
Interest paid	(65,999)	(62,720)
Net cash used in capital and related financing activities	(79,433)	(401,595)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Change in assets limited as to use, net	25,790	(15,484)
Investment income	11,120	13,529
Net cash provided by (used in) investing activities	36,910	(1,955)
NET INCREASE IN CASH AND CASH EQUIVALENTS	2,278,402	193,730
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	957,379	763,649
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 3,235,781	957,379
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:		
PCHS entered into capital lease obligations for new equipment	$ --	308,462
Paycheck Protection Program loan forgiveness	$ 1,034,680	--

See notes to financial statements

Phillips County Health Systems

Statements of Cash Flows (Continued)
For the Years Ended March 31, 2021 and 2020

	2021	2020
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (2,063,165)	(438,036)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	432,570	424,496
Gain on disposal of capital assets	(680)	(84,471)
(Increase) decrease in assets -		
Receivables -		
Patients	259,263	(260,755)
Other	(22,897)	(7,937)
Inventories	22,148	(22,368)
Prepaid expenses	(89,283)	45,368
Estimated third-party payor settlements	(286,129)	--
Scholarships	(55,765)	(35,641)
Increase (decrease) in liabilities -		
Accounts payable - trade	(476,631)	(193,357)
Accrued salaries, vacation, benefits and payroll taxes	115,229	110,372
Estimated third-party payor settlements	(394,487)	262,642
Net cash used in operating activities	$ (2,559,827)	(199,687)

See notes to financial statements

(1) Description of Reporting Entity and Summary of Significant Accounting Policies

A. Description of Reporting Entity

Phillips County Hospital d/b/a Phillips County Health Systems (PCHS) provides acute care, swing-bed and clinic services in the Phillipsburg, Kansas area. PCHS is a component unit of Phillips County, Kansas (County) and the Board of County Commissioners appoints members to the Board of Trustees of PCHS.

PCHS' financial statements are an integral part of Phillips County, Kansas. The accompanying financial statements are not intended to present fairly the financial position, changes in financial position, and cash flows of Phillips County, Kansas, in conformity with accounting principles generally accepted in the United States of America.

The Budget Reconciliation Act of 1997 (Act) contained many provisions impacting Medicare reimbursement for PCHS. The Act established the Medicare Rural Hospital Flexibility Program to assist states and rural communities to improve access to essential healthcare services through Critical Access Hospitals (CAH's) and rural health networks. CAH's are acute care facilities that provide emergency, outpatient, and short-term inpatient services. PCHS is a CAH. Medicare reimburses CAHs on a reasonable cost basis.

B. Basis of Accounting and Presentation

The financial statements of PCHS have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenue, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenue and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific (such as county appropriations), property taxes, investment income and interest on capital assets-related debt are included in nonoperating revenue and expenses. PCHS first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

C. Industry Environment

The healthcare industry is subject to numerous laws and regulations of federal, state and local governments. These laws and regulations include, but are not necessarily limited to, matters such as licensure, accreditation, government healthcare program participation requirements, reimbursements for patient services, and Medicare and Medicaid fraud and abuse. Violations of these laws and regulations could result in expulsion from government healthcare programs together with the imposition of significant fines and penalties, as well as significant repayments for patient services previously billed.

Management believes that PCHS is in compliance with applicable government laws and regulations as they apply to the areas of fraud and abuse. While no regulatory inquiries have been made, compliance with laws and regulations is subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time.

On January 30, 2020, the World Health Organization declared the coronavirus outbreak a "Public Health Emergency of International Concern" and on March 10, 2020, declared it to be a pandemic. Actions taken around the world to help mitigate the spread of the coronavirus include restrictions on travel, quarantines in certain areas, and forced closures for certain types of public places and businesses. The coronavirus and actions taken to mitigate it have had and are expected to continue to have an adverse impact on the economies of many countries. The healthcare industry has experienced volume declines due to the pandemic.

D. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

E. Cash and Cash Equivalents

PCHS considers all liquid investments with original maturities of three months or less to be cash equivalents.

F. Accounts Receivable - Patients

PCHS reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. PCHS provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

PCHS also maintains a patient financial assistance (charity care) policy as described in Note 1 (O).

G. Inventories

Inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

H. Assets Limited as to Use

Assets limited as to use include amounts restricted by donors for specific operating activities or by the Board of Trustees. Assets limited as to use consists of money market accounts.

I. Investments

Investments consist of a certificate of deposit carried at amortized cost.

J. Capital Assets, Net

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are amortized over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by PCHS:

Land improvements	15 to 20 years
Buildings	15 to 40 years
Fixed equipment	10 to 20 years
Moveable equipment	3 to 20 years

Gifts of capital assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire capital assets are reported as capital grants and contributions. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the acquired long-lived assets are placed into service.

K. Compensated Absences

PCHS policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off. Expense and the related liability are recognized as vacation benefits are earned. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Accrued benefits payable are computed using the regular pay rates in effect at the statement of net position date.

L. Refundable Advances

Provider Relief Funds

Refundable advances include funds received under the CARES Act signed by the President on March 27, 2020 for which the related performance obligations have not yet been met. The funds advanced to PCHS are to be used to support healthcare related expenses or lost revenue attributable to the coronavirus pandemic and to ensure uninsured Americans can get testing and treatment for the coronavirus. The amounts received represent a stimulus grant that has guidelines on how the funding may be used rather than a loan that will have to be repaid. Total provider relief funds advanced to PCHS under the CARES Act amounted to $4,065,959. PCHS has met the conditions to recognize a portion of the funds received as revenue and has included $2,975,932 as noncapital grants and contributions in the statement of revenue, expenses and changes in net position for the year ended March 31, 2021. PCHS has $1,090,027 in unspent Provider Relief Funds which are available for future lost revenue and qualifying expenses. These available funds have been recorded as a refundable advance on the statement of net position as of March 31, 2021.

PCHS will be required to submit documentation to the Department of Health and Human Services (HHS) and attest how it earned the provider relief funds in accordance with the applicable terms and conditions. HHS continues to provide clarification of provider relief fund usage, which could impact the amounts previously recorded as noncapital grants and contributions as well as amounts recorded in the future. Management continues to evaluate and await further clarifications from HHS; this clarification and any future changes by HHS could have a material impact on the financial statements in the future.

Accelerated and Advance Payment Program

The accelerated and advance payment program (AAPP) administered by the Centers for Medicare and Medicaid Services was made available for providers to ensure cash flows for providers when there is a disruption in Medicare claims processing. PCHS utilized the AAPP to ensure they have the necessary resources needed to combat potential delays in claims processing during the coronavirus pandemic. The total amount advanced to PCHS in the beginning of fiscal year 2021 was $4,930,384. PCHS returned these funds near the end of fiscal year 2021.

M. Net Position

Net position classifications are defined as follows:

Net investment in capital assets – This component of net position consists of capital assets, including any restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any outstanding borrowings that are attributable to the acquisition, construction, or improvement of those assets.

Restricted – This component of net position consists of constraints placed on net position through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or constraints imposed by law through constitutional provisions or enabling legislation.

Unrestricted – This component of net position consists of net position items not meeting the definition of the two preceding categories. This component often has constraints on resources imposed by the Board of Trustees which can be removed or modified.

N. Net Patient Service Revenue

PCHS has agreements with third-party payors that provide for payments to PCHS at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and include estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

O. Charity Care

PCHS provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because PCHS does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. Charges excluded from revenue under PCHS' charity care policy were $61,054 and $80,425 in 2021 and 2020, respectively.

P. Property Taxes

PCHS received approximately 3% of its financial support from noncapital appropriations from the County property tax levy in 2021 and 2020. These funds were used to support operations.

Property taxes are assessed in November and are received beginning in January of the following year. Noncapital appropriations revenue from property taxes is recognized in full in the year in which use is first permitted.

Q. Risk Management

PCHS is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health and dental claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

R. *Operating Loss*

Operating loss includes transactions deemed by management to be ongoing, major or central to the provision of medical services provided by PCHS. Revenue and expenses to provide these services are reported as operating loss for the reporting period.

Operating revenue results from exchange transactions associated with the provision of healthcare services – PCHS' principal activity. Nonexchange revenue, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenue. Operating expenses are all expenses incurred to provide healthcare services.

S. Income Taxes

As an essential government function of the County, PCHS is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, PCHS is subject to federal income tax on any unrelated business taxable income.

T. Medical Malpractice Insurance

Medical malpractice insurance is purchased under claims-made policies. Under these policies, only claims made and reported to the insurer are covered during the policy term. PCHS accrues the expense of its share of asserted and unasserted claims occurring during the year by estimating the probable ultimate cost of any such claim. Such estimates are based on PCHS' own claims experience. PCHS' management does not expect any claim to exceed the insurance coverage limits. However, because of the risk involved in providing healthcare services, it is possible an event has occurred that will be the basis of a future material claim.

U. Recent Accounting Pronouncements

In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*. The standard implements a single approach to accounting for leases. Lessees will be required to recognize a lease liability, measured at the present value of expected payments net of incentives, and an intangible right-to-use asset for all leases with terms of greater than 12 months. As payments are made, lessees will reduce the liability and recognize interest expense. Lease terms will include options to extend or terminate leases if it is reasonably certain that those options will be exercised. The standard will be effective for reporting periods beginning after December 15, 2021. PCHS is currently evaluating the effect the new standard will have on the financial statements.

V. Subsequent Events

PCHS considered events occurring through August 12, 2021 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

(2) Net Patient Service Revenue

PCHS has agreements with third-party payers that provide for payments to PCHS at amounts different from its established rates. These payment arrangements include:

Medicare - Inpatient acute care services rendered to Medicare program beneficiaries in a critical access hospital are paid based on Medicare defined costs of providing the services. Inpatient nonacute services, certain outpatient services, and rural health clinic services related to Medicare beneficiaries are also paid based on a cost reimbursement methodology. PCHS is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by PCHS and audits thereof by the Medicare Administrative Contractor. PCHS' Medicare cost reports have been audited by the Medicare Administrative Contractor through March 31, 2019.

The "Budget Control Act of 2011" requires, among other things, mandatory across-the-board reductions in Federal spending, also known as sequestration. In general, Medicare claims with dates of service or dates of discharge on or after April 1, 2013, incur a two percent reduction in Medicare payment. Legislation has currently suspended this sequestration from May 1, 2020 to March 31, 2021.

Medicaid - Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on previously filed cost reports. The add-on percentage may be rebased at some time in the future.

Commercial - PCHS has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to PCHS under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Net patient service revenue consists of the following for the years ending March 31, 2021 and 2020:

		2021	2020
Gross patient service revenue:			
Inpatient	$	4,038,016	3,916,897
Outpatient		9,951,590	9,830,730
Clinic		1,965,096	2,084,090
Total gross patient services revenue		15,954,702	15,831,717
Deductions from (additions to) gross patient service revenue:			
Medicare		1,260,107	1,568,516
Medicaid		593,670	579,493
Other payors		1,265,564	984,185
Charity care		61,054	80,425
Total deductions from gross patient service revenue, net		3,180,395	3,212,619
		12,774,307	12,619,098
Provision for uncollectible accounts		371,134	297,578
Net patient service revenue, net of provision for bad debts	$	12,403,173	12,321,520

PCHS reports net patient service revenue at estimated net realizable amounts from patients, third-party payers, and others for services rendered and includes estimated retroactive revenue adjustments due to future audits, reviews, and investigations. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such amounts are adjusted in future periods as adjustments become known or as years are no longer subject to such audits, reviews, and investigations.

Approximately 72% and 71% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended March 31, 2021 and 2020, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

(3) Cash and Cash Equivalents, Investments, and Assets Limited as to Use

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kansas; bonds of any city, county, school district or special road district of the state of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. PCHS' deposit policy for custodial credit risk requires compliance with the provisions of state law.

At March 31, 2021 and 2020, respectively, $3,137,563 and $911,933 of PCHS' bank balances of $3,613,923 and $1,466,841 were exposed to custodial credit risk as follows:

		2021	2020
Insured (FDIC) or collateralized with securities held by the Agency	$	476,360	554,908
Unsecured		--	201,240
Collateralized with securities held by pledging financial institution's trust department or agent in other than the Agency's name		3,137,563	710,693
Total deposits	$	3,613,923	1,466,841

The following is a summary of cash and cash equivalents, investments, and assets limited as to use as seen on the statements of net position as of March 31, 2021 and 2020:

		2021	2020
Included in the following statement of net position captions –			
Cash and cash equivalents	$	3,235,781	957,379
Investments - certificates of deposit		9,500	9,500
Assets limited as to use – cash and cash equivalents		155,500	181,290
	$	3,400,781	1,148,169

(4) Composition of Patient Receivables

Patient receivable as of March 31, 2021 and 2020 consist of the following:

		2021	2020
Patient accounts receivable	$	2,937,330	2,953,275
Less estimated third-party contractual adjustments		(549,723)	(424,933)
Less allowance for doubtful accounts		(642,720)	(524,192)
	$	1,744,887	2,004,150

PCHS grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	2021	2020
Medicare	45%	34%
Medicaid	5	7
Blue Cross	9	16
Other third-party payors	11	19
Self-pay	30	24
	100%	100%

(5) Capital Assets

Capital assets activity for the years ended March 31, 2021 and 2020 was as follows:

	March 31, 2020	Additions	Transfers or Disposals	March 31, 2021
Capital assets, not being depreciated/amortized:				
Land	$ 32,960	--	--	32,960
Construction in progress	99,491	105,188	--	204,679
	132,451	105,188	--	237,639
Capital assets, being depreciated/amortized:				
Land improvements	115,541	--	--	115,541
Buildings	3,942,801	85,466	--	4,028,267
Fixed equipment	2,662,470	9,168	--	2,671,638
Major moveable equipment	2,958,592	738,231	(8,919)	3,687,904
Total capital assets, being depreciated/amortized	9,679,404	832,865	(8,919)	10,503,350
Less accumulated depreciation/amortization:				
Land improvements	(108,243)	(544)	--	(108,787)
Buildings	(3,286,849)	(111,957)	--	(3,398,806)
Fixed equipment	(2,158,841)	(47,350)	--	(2,206,191)
Major moveable equipment	(2,074,043)	(272,719)	8,919	(2,337,843)
Total accumulated depreciation/amortization	(7,627,976)	(432,570)	8,919	(8,051,627)
Total capital assets, being depreciated/amortized, net	2,051,428	400,295	--	2,451,723
Total capital assets, net	$ 2,183,879	505,483	--	2,689,362

	March 31, 2019	Additions	Transfers or Disposals	March 31, 2020
Capital assets, not being depreciated/amortized:				
Land	$ 48,100	--	(15,140)	32,960
Construction in progress	99,491	--	--	99,491
	147,591	--	(15,140)	132,451
Capital assets, being depreciated/amortized:				
Land improvements	115,541	--	--	115,541
Buildings	4,040,008	17,547	(114,754)	3,942,801
Fixed equipment	2,653,946	8,524	--	2,662,470
Major moveable equipment	2,807,667	436,201	(285,276)	2,958,592
Total capital assets, being depreciated/amortized	9,617,162	462,272	(400,030)	9,679,404
Less accumulated depreciation/amortization:				
Land improvements	(107,699)	(544)	--	(108,243)
Buildings	(3,211,489)	(139,490)	64,130	(3,286,849)
Fixed equipment	(2,109,184)	(49,657)	--	(2,158,841)
Major moveable equipment	(2,129,243)	(234,805)	290,005	(2,074,043)
Total accumulated depreciation/amortization	(7,557,615)	(424,496)	354,135	(7,627,976)
Total capital assets, being depreciated/amortized, net	2,059,547	37,776	(45,895)	2,051,428
Total capital assets, net	$ 2,207,138	37,776	(61,035)	2,183,879

Depreciation and amortization expense of $432,570 and $424,496 for fiscal years 2021 and 2020, respectively, is included on the statements of revenue, expenses, and changes in net assets.

(6) Line of Credit

PCHS had a $600,000 revolving bank line of credit that expired October 30, 2020. The following is a summary of line of credit transactions for year ended March 31:

		2021	2020
Beginning balance	$	200,000	300,000
Additions		--	--
Deductions		(200,000)	(100,000)
Ending balance	$	--	200,000

(7) Long-Term Debt

A summary of long-term debt and capital lease activity for the years ending March 31, 2021 and 2020 is as follows:

		March 31, 2020	Borrowings	Payments	March 31, 2021	Due Within One Year
Capital lease obligations (a)	$	556,811	--	(179,324)	377,487	93,169
Note payable (b)		--	163,650	(13,180)	150,470	32,084
Note payable (c)		58,687	--	(58,687)	--	--
Paycheck Protection Progam (d)		--	1,034,680	(1,034,680)	--	--
Total	$	615,498	1,198,330	(1,285,871)	527,957	125,253

		March 31, 2019	Borrowings	Payments	March 31, 2020	Due Within One Year
Capital lease obligations (a)	$	385,502	308,462	(137,153)	556,811	179,051
Note payable (e)		93,418	--	(93,418)	--	--
Note payable (c)		58,687	--	--	58,687	58,687
Total	$	537,607	308,462	(230,571)	615,498	237,738

(a) Capital lease obligations for equipment with interest rates ranging from 2.50% to 11.47%, due in monthly installments ranging from $186 to $1,050, including interest through January 2024, and annual payments of $48,583 through January 2027. The leases are secured by equipment with an original cost of $899,719 and a net book value of $329,473 as of March 31, 2021.

(b) Note payable to local bank, due in monthly installments of $2,900, including interest at 2.0%, through October 2025. The note payable is secured by the purchased asset. Note was paid in full subsequent to year end.

(c) Note payable to local bank, due in annual installments of $62,091, including interest at 5.8%, through March 2021. The note payable is secured by accounts receivable.

(d) PCHS was granted a $1,034,680 loan under the Paycheck Protection Program (PPP), set up by the United States Small Business Administration (SBA) as allocated in the CARES Act. The principal and interest is subject to forgiveness under the PPP to the extent proceeds are used to pay expenses permitted by the PPP. During 2021, PCHS received confirmation that the entire PPP loan was forgiven by the SBA. As a result, $1,034,680 is included within noncapital grants and contributions in the statement of revenue, expenses, and changes in net assets for the year ended March 31, 2021.

(e) Note payable to local bank, due in monthly installments of $958, including interest at 3.94%, through July 2029. The note payable is secured by a mortgage on the purchased property. Note was paid in full during 2020.

Scheduled principal and interest payments on notes payable and capital lease obligations are as follows for the fiscal year ending March 31:

	Direct Borrowings					
	Notes Payable		Capital Leases		Total	
Year Ending	Principal	Interest	Principal	Interest	Principal	Interest
2022	$ 32,084	2,716	93,169	12,974	125,253	15,690
2023	32,731	2,069	78,117	8,832	110,848	10,901
2024	33,392	1,408	68,110	5,278	101,502	6,686
2025	34,066	734	45,105	3,478	79,171	4,212
2026	18,197	112	46,242	2,341	64,439	2,453
2027	--	--	46,744	1,185	46,744	1,185
	$ 150,470	7,039	377,487	34,088	527,957	41,127

(8) Net Position

Of the $2,896,025 and $573,108 of unrestricted net position as of March 31, 2021 and 2020, respectively, $161,751 and $105,986 has been designated by PCHS' Board of Trustees for scholarships.

The following is a summary of donor restricted net position purpose as of March 31, 2021 and 2020:

	2021	2020
COVID response	$ 97,384	--
Scholarships	14,747	54,692
Equipment	6,715	64,332
Operations / other	36,654	54,207
Provider retention	--	8,059
	$ 155,500	181,290

(9) Medical Malpractice Claims

PCHS carries a professional liability policy (including malpractice) which provides $1,000,000 of coverage for injuries per occurrence and $3,000,000 aggregate coverage. These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while the coverage is in force. PCHS could have exposure on possible incidents that have occurred for which claims will be made in the future should professional liability insurance not be obtained, should coverage be limited and/or not available.

PCHS is not aware of any known claims or incidents or claims from unknown incidents that may be asserted from services provided to patients. PCHS has also evaluated its paid claims history and has determined that no reserve for losses on both asserted and unasserted claims is needed.

Accounting principles generally accepted in the United States of America require a healthcare provider to recognize the ultimate costs of malpractice claims or similar contingent liabilities, which include costs associated with litigating or settling claims, when the incidents that give rise to the claims occur. PCHS does evaluate all incidents and claims along with prior claim experienced to determine if a liability is to be recognized. For the years ending March 31, 2021 and 2020, management determined no liability should be recognized for asserted or unasserted claims. Management is not aware of any such claim that would have a material adverse impact on the accompanying financial statements.

(10) Pension Plan

PCHS maintains a contributory pension plan covering substantially all employees. Pension expense is recorded for the amount of PCHS' required contributions, determined in accordance with the terms of the plan. PCHS will contribute 6.2% of eligible employee compensation as well as a matching amount equal to 200% of the employee's deferred amount up to 2%. That maximum employer contribution is 10.2% of eligible employee compensation. Employees are vested 20% in PCHS contribution after one year employment and add 20% after each additional year of service.

The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of PCHS' governing body. Contribution rates, expressed as a percentage of covered payroll, were 10% for plan members and 10% for PCHS, respectively, for 2021 and 2020. Contributions by plan members were $765,790 and $700,095 for 2021 and 2020, respectively. Contributions by PCHS were $733,562 and $672,897 for 2021 and 2020, respectively.

(11) Management/Services Agreement

The Board of Trustees of PCHS contracted with Great Plains Health Alliance (GPHA) for various services, including management and data processing services. During 2019, PCHS terminated the management agreement leaving only the data processing agreement as of March 31, 2019. Fees incurred for the various services provided by GPHA to PCHS totaled $688,808 and $664,898 in 2021 and 2020, respectively. Amounts included in accounts payable related to these services totaled $160,777 and $287,549 as of March 31, 2021 and 2020, respectively. PCHS has agreed to pay $10,559 per month through July 2022 to satisfy the payable amount to GPHA.

The Board of Trustees of PCHS has entered into a service agreement with the Cerner RevWorks (Cerner) for billing services. The three year service agreement ends in November 2021 with the option for additional one year extensions. Under the terms of the agreement, Cerner will receive 1.99% of net receipts from patient services. Fees incurred under the service agreement totaled $246,641 and $229,664 for the years ended March 31, 2021 and 2020, respectively.

(12) Other Operating Revenue

Other operating revenue for the years ended March 31, 2021 and 2020 consisted of the following:

	2021	2020
340B drug pricing program	$ 1,236,445	1,256,111
Contract therapy	150,149	215,449
Operating grant	117,531	150,000
Cafeteria sales	34,599	36,106
Telemedicine	30,316	28,711
Gain on sale of capital assets	680	84,471
Miscellaneous revenue	29,568	114,088
	$ 1,599,288	1,884,936

340B Drug Pricing Program

PCHS participates in the 340B Drug Pricing Program (340B Program) enabling PCHS to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases and enter into certain contracts with unrelated pharmacies who provide certain prescriptive drugs to PCHS patients who receive rural health clinic and outpatient services from PCHC. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near future. During 2021 and 2020, PCHS recognized $1,236,445 and $1,256,111, respectively, of other operating revenue related to the 340B Program contracts with unrelated pharmacies.

(13) Great Plains Employee Benefits Trust

In response to amendments to Kansas Insurance Code related to multi-employer welfare arrangements, GPHA restated its existing voluntary employees' beneficiary association (VEBA) trust as described in Section 501(c)(9) of the Internal Revenue Code, which is named the Great Plains Employee Benefits Trust (the Trust). The Trust is governed by its Board of Trustees. One of the purposes of the Trust is to provide the self-funded GPHA Employee Benefits Plan (the Plan) for its member organizations and their participating employees. PCHS is a member organization in the Trust and substantially all of PCHS' employees and their dependents are eligible to participate in the Plan. The Plan provides medical benefits, prescription drug benefits and dental benefits for a benefit period that runs each year from July 1 through June 30. The participant's monthly premiums are determined by the Trust. The Trust may change the premiums from time to time. The Plan agreement specifies that the Trust will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts. The Trust accrues a provision for self-insured employee benefit claims including both claims reported and claims incurred but not yet reported. If a net deficit position is anticipated by the Trust after consideration of the accrued provision, the Trust will administer insurance assessments to its member organizations based on a systematic allocation method.

PCHS made employer premium contributions of $744,800 and $667,282 during fiscal years 2021 and 2020, respectively. These contributions are included in employee benefit expense in the statements of revenue, expenses and changes in net position. During 2016, PCHS was assessed approximately $126,400 to cover Trust shortfalls. No shortfall assessment have assessed subsequent to 2016.