Financial Statements
March 31, 2024 and 2023

Phillips County Health Systems

A Component Unit of Phillips County, Kansas

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the business-type activities of Phillips County Health Systems (PCHS), a component unit of Phillips County, Kansas, as of and for the years ended March 31, 2024 and 2023, and the related notes to the financial statements, which collectively comprise PCHS's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of PCHS, as of March 31, 2024 and 2023, and the respective changes in financial position, and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS), the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States (*Government Auditing Standards*), and the Kansas Municipal Audit and Accounting Guide. Our responsibilities under those standards and guide is further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of PCHS and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Adoption of New Accounting Standards

As discussed in Note 1 and Note 15 to the financial statements, PCHS has adopted the provisions of Government Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*, which has resulted in a restatement of net position as of April 1, 2022. In accordance with GASB Statement No. 96, the financial statements as of and for the year ended March 31, 2023, have been restated to reflect this change. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, including the Kansas Municipal Audit and Accounting Guide, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about PCHS's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Kansas Municipal Audit and Accounting Guide will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, Government Auditing Standards, and the Kansas Municipal Audit and Accounting Guide we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 PCHS' internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about PCHS' ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control–related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the 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 financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements are not affected by the missing information.



Omaha, Nebraska
October 7, 2024

	2024	(As Restated) 2023
Assets		
Current Assets		
Cash and cash equivalents	$ 408,457	$ 833,155
Receivables		
Patients, net of allowance for doubtful accounts of $974,223 in 2024 and $1,061,729 in 2023	2,430,322	1,954,210
Other	256,243	229,397
Inventories	354,706	293,819
Prepaid expenses	157,272	123,346
Estimated third-party payor settlements	275,000	943,973
Total current assets	3,882,000	4,377,900
Capital Assets, Net		
Land	32,960	32,960
Construction in progress	730,226	638,551
Depreciable capital assets, net	1,957,078	2,455,933
Total capital assets, net	2,720,264	3,127,444
Noncurrent Assets		
Assets limited as to use	430,390	93,722
Investments	9,500	9,500
Scholarships receivable	79,053	84,120
Right of use leased assets, net	-	11,168
Right of use subscription IT assets, net	783,478	1,168,916
Total noncurrent assets	1,302,421	1,367,426
Total assets	$ 7,904,685	$ 8,872,770

	2024	(As Restated) 2023
Liabilities		
Current Liabilities		
Current portion of long-term debt	$ 133,157	$ 131,049
Current portion of lease liabilities	-	24,097
Current portion of subscription IT liabilities	442,429	429,973
Accounts payable	783,134	664,258
Accrued salaries, vacation, benefits and payroll taxes	1,421,865	1,368,119
Total current liabilities	2,780,585	2,617,496
Noncurrent Liabilities		
Long-term debt, net of current portion	180,476	317,185
Subscription IT liabilities, net of current portion	268,072	704,750
Total liabilities	3,229,133	3,639,431
Net Position		
Net investment in capital assets	2,479,608	2,700,474
Restricted for capital acquisitions or operations	430,390	93,722
Unrestricted	1,765,554	2,439,143
Total net position	4,675,552	5,233,339
Total liabilities and net position	$ 7,904,685	$ 8,872,770

	2024	(As Restated) 2023
Operating Revenue		
Net patient service revenue, net of provision for bad debts of $700,730 in 2024 and $386,100 in 2023	$ 16,259,895	$ 14,844,909
Other operating revenue	1,516,528	1,130,220
Total operating revenue	17,776,423	15,975,129
Operating Expenses		
Salaries and wages	8,494,853	7,948,841
Employee benefits	1,936,622	2,020,016
Supplies and other expenses	3,836,347	3,294,699
Professional fees and purchased services	4,033,235	3,648,483
Depreciation and amortization	972,802	990,858
Total operating expenses	19,273,859	17,902,897
Operating Loss	(1,497,436)	(1,927,768)
Nonoperating Revenue (Expense)		
Property taxes	560,430	476,008
Noncapital grants and contributions	142,844	545,783
Investment income	1,472	344
Interest expense	(65,097)	(61,495)
Total nonoperating revenue, net	639,649	960,640
Deficiency of Revenue Over Expenses Before Capital Grants and Contributions	(857,787)	(967,128)
Capital Grants and Contributions	300,000	-
Change in Net Position	(557,787)	(967,128)
Net Position, Beginning of Year	5,233,339	6,200,467
Net Position, End of Year	$ 4,675,552	$ 5,233,339

	2024	(As Restated) 2023
Operating Activities		
Receipts from and on behalf of patients and third-party payors	$ 16,452,756	$ 14,278,097
Payments to and on behalf of employees	(10,377,729)	(9,927,440)
Payments to suppliers and contractors	(7,840,452)	(6,732,892)
Other receipts and payments, net	1,489,682	928,250
Net Cash Used for Operating Activities	(275,743)	(1,453,985)
Noncapital Financing Activities		
Property taxes received	560,430	476,008
Noncapital grants and contributions	142,844	545,783
Net Cash From Noncapital Financing Activities	703,274	1,021,791
Capital and Related Financing Activities		
Purchase of capital assets	(160,015)	(345,369)
Capital grants and contributions	300,000	-
Principal paid on long-term debt	(134,601)	(36,814)
Principal paid on leases payable	(24,097)	(35,177)
Principal paid on subscription IT liabilities	(433,223)	(419,133)
Interest paid	(65,097)	(61,495)
Net Cash Used for Capital and Related Financing Activities	(517,033)	(897,988)
Investing Activities		
Investment income	1,472	344
Net Change in Cash and Cash Equivalents	(88,030)	(1,329,838)
Cash and Cash Equivalents, Beginning of Year	926,877	2,256,715
Cash and Cash Equivalents, End of Year	$ 838,847	$ 926,877
Noncash Investing, Capital, and Financing Activities		
Subscription IT liability for the acquisition of a right to use subscription IT asset	$ 9,001	$ 40,581
Financed capital purchase obligations for new equipment	$ -	$ 259,350
Reconciliation of cash and cash equivalents:		
Cash and cash equivalents	$ 408,457	$ 833,155
Assets limited as to use	430,390	93,722
	$ 838,847	$ 926,877

	2024	(As Restated) 2023
Reconciliation of Operating Loss to Net Cash used for Operating Activities		
Operating loss	$ (1,497,436)	$ (1,927,768)
Adjustments to reconcile operating loss to net cash used for operating activities		
Depreciation and amortization	972,802	990,858
Gain on disposal of capital assets	-	18,750
Change in assets and liabilities		
Receivables		
Patients	(476,112)	437,161
Other	(26,846)	(220,720)
Inventories	(60,887)	(8,581)
Prepaid expenses	(33,926)	3,681
Estimated third-party payor settlements	668,973	(1,003,973)
Scholarships	5,067	31,567
Accounts payable - trade	118,876	183,623
Accrued salaries, vacation, benefits and payroll taxes	53,746	41,417
Net Cash Used for Operating Activities	$ (275,743)	$ (1,453,985)

Note 1 - Description of Reporting Entity and Summary of Significant Accounting Policies

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.

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 asset 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.

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.

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.

Cash and Cash Equivalents

PCHS considers all liquid investments with original maturities of three months or less to be cash equivalents. For purposes of the statements of cash flows, PCHS considers all cash and cash equivalents with original maturities of three months or less as cash and cash equivalents.

Patient Receivables, Net

PCHS reports patient accounts receivable for services rendered at net realizable amounts from third-party payors, patients and others. Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectability of accounts receivable, PCHS analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts. For receivables associated with services provided to patients who have third-party coverage, PCHS analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for bad debts for those accounts over a certain age based on discharge that make the realization of amounts due unlikely.

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), PCHS records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

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

Inventories

Inventories are stated at the lower of cost, determined using the first-in, first-out method, or market. Cost is determined principally using the first-in, first-out method. Market value is determined by comparison with recent purchases or realizable value.

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.

Investments

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

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 financed capital purchase 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.

PCHS' capital assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If the sum of the expected cash flows is less than the carrying amount of the asset, a loss is recognized. There were no impairments for 2024 or 2023.

Right of Use Leased Assets and Lease Liabilities

PCHS is the lessee for certain noncancellable equipment leases. PCHS has recognized lease liabilities and intangible right to use lease assets (lease asset) in the financial statements for these leases.

At the commencement of a lease, PCHS initially measures the lease liability at the present value of payment expected to be made during the lease term. Subsequently, the lease liability is reduced by the principal portion of lease payment made.

Right to use leased assets are recognized at the lease commencement date and represent PCHS's right to use an underlying asset for the lease term. Right to use leased assets are measured at the initial value of the lease liability plus any payments made to the lessor before commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term, plus any initial direct costs necessary to please the lease asset into service. Right to use leased assets are amortized over the shorter of the lease term or useful live of the underlying asset using the straight-line method.

Key estimates and judgments related to leases include how PCHS determines the discount rate it uses to discount the expected lease payments to present value, lease term and lease payments. PCHS uses the interest rate charged by the lessor as the discount rate. When the interest rate charged by the lessor is not provided, PCHS generally uses its estimated incremental borrowing rate as the discount rate for leases.

The lease term includes the noncancellable period of the lease. Lease payments included in the measurement of the lease liability are composed of fixed payments and a purchase option price (if applicable) that PCHS is reasonably certain to exercise.

PCHS monitors changes in circumstances that would require a remeasurement of its lease and will remeasure the lease asset and liability if certain changes occur that are expected to significantly affect the amount of the lease liability.

Lease liabilities and leased assets, net, are reported separately on the statements of net position.

Subscription Liabilities and Right to Use Subscription IT Assets

Subscription liabilities represent PCHS's obligation to make subscription payments arising from the subscription contract. Subscription liabilities are recognized at the subscription commencement date based on the present value of future subscription payments expected to be made during the subscription term.

Key estimates and judgments related to contracts include how the Hospital determines the discount rate it uses to discount the expected contract payments to present value, contract term and contract payments. PCHS uses the interest rate charged by the vendor as the discount rate. When the interest rate charged by the vendor is not provided, PCHS generally uses its estimated incremental borrowing rate as the discount rate for the contracts.

Right to use subscription IT assets are recognized at the subscription commencement date and represent PCHS's right to use the underlying IT asset for the subscription term. Right to use subscription IT assets are measured at the initial value of the subscription liability plus any payments made to the vendor at the commencement of the subscription term, less any subscription incentives received from the vendor at or before the commencement of the subscription term, plus any capitalizable initial implementation costs necessary to place the subscription asset into service. Right to use subscription IT assets are amortized over the shorter of the subscription term or useful live of the underlying asset using the straight-line method. The amortization period varies from 3 to 5 years.

Subscription IT liabilities and right to use subscription IT assets, net, are reported separately on the statement of net position.

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.

Group Health Insurance Costs

Effective July 1, 2023, PCHS is partially self-insured under its employee group health program, up to certain limits with the specific loss threshold. Included in the accompanying statements of revenue, expenses and changes in net position is a provision for premiums for excess coverage and payments for claims including estimates of the ultimate costs for both reported claims and claims incurred but not yet reported at year end. The statements of net position include accruals as of March 31, 2024 for claims incurred but not yet reported at year end.

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, and leased assets net of accumulated depreciation or amortization 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.

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.

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.

Property Taxes

PCHS received approximately 3% of its financial support from noncapital appropriations from the County property tax levy in 2024 and 2023. 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.

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.

Operating Revenue and Expenses

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.

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.

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.

Adoption of New Accounting Standard

As of April 1, 2022, PCHS adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements (SBITAs)*. The implementation of this standard establishes that a SBITA results in a right to use subscription IT asset - an intangible asset - and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. The Statement requires recognition of certain SBITA assets and liabilities for SBITAs that previously were recognized as outflows of resources based on the payment provisions of the contract. The standard was implemented as of April 1, 2022, which is the beginning of the earliest period presented in the financial statements. The effect of the implementation of this standard on beginning net position is disclosed in Note 15 and the additional disclosures required by this standard is included in Note 8.

Reclassifications

Certain amounts in the 2024 financial statements have been reclassified to conform to the 2023 reporting format.

Subsequent Events

PCHS considered events occurring through October 7, 2024 for recognition or disclosure in the financial statements as subsequent events. That date is the date the financial statements were available to be issued.

Note 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, 2022.

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, 2024 and 2023:

	2024	2023
Gross patient service revenue		
Inpatient	$ 4,334,026	$ 4,040,294
Outpatient	12,464,095	11,905,774
Clinic	2,935,435	2,724,611
Total gross patient services revenue	19,733,556	18,670,679
Deductions from gross patient service revenue		
Medicare	330,047	1,002,665
Medicaid	274,269	705,418
Other payors	2,078,713	1,674,648
Charity care	89,902	56,939
Total deductions from gross patient service revenue	2,772,931	3,439,670
	16,960,625	15,231,009
Provision for uncollectible accounts	(700,730)	(386,100)
Net patient service revenue, net of provision for bad debts	$ 16,259,895	$ 14,844,909

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 73% and 69% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended March 31, 2024 and 2023, 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.

Note 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, 2024 and 2023, respectively, $484,897 and $467,387 of PCHS' bank balances of $1,020,056 and $1,001,666 were exposed to custodial credit risk as follows:

	2024	2023
Insured (FDIC) or collateralized with securities held by PCHS	$ 535,159	$ 540,259
Collateralized with securities held by pledging financial institution's trust department or agent in other than the PCHS's name	484,897	231,631
Unsecured	-	229,756
Total deposits	$ 1,020,056	$ 1,001,646

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, 2024 and 2023:

	2024	2023
Included in the following statement of net position captions		
Cash and cash equivalents	$ 408,457	$ 833,155
Investments - certificates of deposit	9,500	9,500
Assets limited as to use – cash and cash equivalents	430,390	93,722
	$ 848,347	$ 936,377

Note 4 - Composition of Patient Receivables

Patient receivable as of March 31, 2024 and 2023 consist of the following:

	2024	2023
Patient accounts receivable	$ 4,005,946	$ 3,756,527
Less estimated third-party contractual adjustments	(601,401)	(740,588)
Less allowance for doubtful accounts	(974,223)	(1,061,729)
	$ 2,430,322	$ 1,954,210

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:

	2024	2023
Medicare	31%	35%
Medicaid	7%	5%
Blue Cross	6%	10%
Other third-party payors	28%	15%
Self-pay	28%	35%
	100%	100%

Note 5 - Capital Assets

Capital assets activity for the years ended March 31, 2024 and 2023 was as follows:

	March 31, 2023	Additions	Transfers or Disposals	March 31, 2024
Capital assets, not being depreciated				
Land	$ 32,960	$ -	$ -	$ 32,960
Construction in progress	638,551	134,911	(43,236)	730,226
Total capital assets, not being depreciated	671,511	134,911	(43,236)	763,186
Capital assets, being depreciated				
Land improvements	115,541	-	-	115,541
Buildings	4,028,130	-	-	4,028,130
Fixed equipment	2,737,970	17,877	-	2,755,847
Major moveable equipment financed by debt	567,812	-	-	567,812
Major moveable equipment	3,780,477	7,227	43,236	3,830,940
Total capital assets, being depreciated	11,229,930	25,104	43,236	11,298,270
Less accumulated depreciation/amortization				
Land improvements	(109,875)	(544)	-	(110,419)
Buildings	(3,600,727)	(84,102)	-	(3,684,829)
Fixed equipment	(2,326,549)	(53,586)	-	(2,380,135)
Major moveable equipment financed by debt	(226,435)	(95,936)	-	(322,371)
Major moveable equipment	(2,510,411)	(333,027)	-	(2,843,438)
Total accumulated depreciation	(8,773,997)	(567,195)	-	(9,341,192)
Total capital assets, being depreciated, net	2,455,933	(542,091)	43,236	1,957,078
Total capital assets, net	$3,127,444	$ (407,180)	$ -	$2,720,264

	March 31, 2022	Additions	Transfers or Disposals	March 31, 2023
Capital assets, not being depreciated				
Land	$ 32,960	$ -	$ -	$ 32,960
Construction in progress	387,240	228,415	22,896	638,551
Total capital assets, not being depreciated	420,200	228,415	22,896	671,511
Capital assets, being depreciated				
Land improvements	115,541	-	-	115,541
Buildings	4,127,758	-	(99,628)	4,028,130
Fixed equipment	2,749,826	-	(11,856)	2,737,970
Major moveable equipment financed by debt	567,812	-	-	567,812
Major moveable equipment	3,517,821	324,470	(61,814)	3,780,477
Total capital assets, being depreciated	11,078,758	324,470	(173,298)	11,229,930
Less accumulated depreciation/amortization				
Land improvements	(109,331)	(544)	-	(109,875)
Buildings	(3,502,656)	(98,071)	-	(3,600,727)
Fixed equipment	(2,279,682)	(46,867)	-	(2,326,549)
Major moveable equipment financed by debt	(130,499)	(95,936)	-	(226,435)
Major moveable equipment	(2,306,694)	(335,369)	131,652	(2,510,411)
Total accumulated depreciation	(8,328,862)	(576,787)	131,652	(8,773,997)
Total capital assets, being depreciated, net	2,749,896	(252,317)	(41,646)	2,455,933
Total capital assets, net	$3,170,096	$ (23,902)	$ (18,750)	$3,127,444

Depreciation and amortization expense of $567,195 and $576,787 for fiscal years 2024 and 2023, respectively, is included on the statements of revenue, expenses, and changes in net assets.

Note 6 - Long-Term Obligations

A summary of long-term obligations activity for the years ending March 31, 2024 and 2023 is as follows:

	March 31, 2023	Borrowings	Payments	March 31, 2024	Due Within One Year
Financed capital purchases (a)	$ 448,234	$ -	$ (134,601)	$ 313,633	$ 133,157

	March 31, 2022	Borrowings	Payments	March 31, 2023	Due Within One Year
Financed capital purchases (a)	$ 225,698	$ 259,350	$ (36,814)	$ 448,234	$ 131,049

(a) Financed capital purchase for CT scanner with interest rate of 2.50%, due in annual installments of $48,583 through January 2027. Secured by equipment. Financed capital purchase for mammography equipment with interest rate of 5.10%, due in semi-annual installments of $50,000 through May 2025. Secured by equipment.

Scheduled principal and interest payments on long-term obligations are as follows for the fiscal year ending March 31:

	Financed Capital Purchases		
Year Ending	Principal	Interest	Total
2025	$ 133,157	$ 11,118	$ 144,275
2026	126,196	4,363	130,559
2027	54,280	1,185	55,465
	$ 313,633	$ 16,666	$ 330,299

Line of Credit

PCHS has a line of credit (LOC) with a local financial institution to support capital and operating needs. The LOC has an advance limitation of $300,000, there were no draws on the line of credit in 2024.

Note 7 - Lease Liability and Right to Use Lease Assets

Lease liability activities for PCHS as of March 31, 2024 consisted of the following:

	March 31, 2023	Borrowings	Payments	March 31, 2024	Due Within One Year
Lease liabilities (a)	$ 24,097	$ -	$ (24,097)	$ -	$ -

	March 31, 2022	Borrowings	Payments	March 31, 2023	Due Within One Year
Lease liabilities (a)	$ 59,274	$ -	$ (35,177)	$ 24,097	$ 24,097

(a) PCHS has entered into various agreements to lease equipment through January 2024. Under the lease terms, PCHS has monthly payments of $570 to $1,051 with discount rates of 3.98% to 11.47% based on their incremental borrowing rates and explicitly stated lease agreement rates, leases paid in full in 2024.

PCHS amortized the right to use leased assets as follows:

	March 31, 2023	Additions	Transfers or Disposals	March 31, 2024
Equipment	$ 329,852	$ -	$ -	$ 329,852
Less accumulated amortization	(318,684)	(11,168)	-	(329,852)
Lease assets, net	$ 11,168	$ (11,168)	$ -	$ -

	March 31, 2022	Additions	Transfers or Disposals	March 31, 2023
Equipment	$ 329,852	$ -	$ -	$ 329,852
Less accumulated amortization	(289,553)	(29,131)	-	(318,684)
Lease assets, net	$ 40,299	$ (29,131)	$ -	$ 11,168

The statement of revenue, expenses, and changes in net position for the year ended March 31, 2024 and 2023 includes right to use asset amortization of $11,168 and $29,131 within depreciation and amortization expense.

Note 8 - Right to Use Subscription IT Assets, Net and Subscription IT Liabilities

Subscription based liability activity of PCHS as of March 31, 2024 and 2023 consisted of the following:

	March 31, 2023	New Obligations	Payments	March 31, 2024	Due Within One Year
Office software (a)	$ 4,635	$ -	$ (4,635)	$ -	$ -
Policy management software (b)	12,965	-	(3,038)	9,927	3,170
Telehealth software (c)	-	9,001	(3,250)	5,751	2,757
Telehealth software (d)	8,565	-	(4,133)	4,432	4,432
EHR software (e)	1,099,553	-	(414,733)	684,820	428,415
Cybersecurity software (f)	9,005	-	(3,434)	5,571	3,655
Total	$ 1,134,723	$ 9,001	$ (433,223)	$ 710,501	$ 442,429

	April 1, 2022	New Obligations	Payments	March 31, 2023	Due Within One Year
Office software (a)	$ 9,122	$ -	$ (4,487)	$ 4,635	$ 4,635
Policy management software (b)	-	16,565	(3,600)	12,965	3,038
Telehealth software (d)	-	13,317	(4,752)	8,565	4,133
EHR software (e)	1,501,042	-	(401,489)	1,099,553	414,733
Cybersecurity software (f)	-	10,699	(1,694)	9,005	3,434
Total	$ 1,510,164	$ 40,581	$ (416,022)	$ 1,134,723	$ 429,973

(a) PCHS entered into an agreement for a subscription contract for office software for three years, beginning June 2021 and ending June 2024. Under the terms of the agreement, PCHS has annual payments of $4,788 and a discount rate of 3.25% based on their incremental borrowing rate.

(b) PCHS entered into an agreement for a subscription contract for policy management software for five years, beginning December 2022 and ending December 2026. Under the terms of the agreement, PCHS has annual payments of $3,600 and a discount rate of 4.25% based on their incremental borrowing rate.

(c) PCHS entered into an agreement for a subscription contract for telehealth software for three years, beginning July 2023 and ending July 2026. Under the terms of the agreement, PCHS has annual payments of $3,250 and a discount rate of 8.25% based on their incremental borrowing rate.

(d) PCHS entered into an agreement for a subscription contract for telehealth software for three years, beginning December 2022 and ending December 2024. Under the terms of the agreement, PCHS has annual payments of $4,752 and a discount rate of 7.00% based on their incremental borrowing rate.

(e) PCHS entered into an agreement for a subscription contract for EHR software for ten years, beginning November 2015 and ending November 2025. Under the terms of the agreement, PCHS has monthly payments of $36,532 for 5 months then monthly payments of $37,027 for the remaining term and a discount rate of 3.25% based on their incremental borrowing rate.

(f) PCHS entered into an agreement for a subscription contract for cybersecurity software for three years, beginning October 2022 and ending October 2025. Under the terms of the agreement, PCHS has monthly payments of $325 and a discount rate of 6.25% based on their incremental borrowing rate.

The remaining obligations associated with these subscription IT obligations are as follows:

Year Ending	Principal	Interest	Total
2025	$ 442,429	$ 17,400	$ 459,829
2026	264,621	3,370	267,991
2027	3,451	150	3,601
	$ 710,501	$ 20,920	$ 731,421

PCHS amortized the right to use subscription IT assets as follows:

	March 31, 2023	Additions	Reductions	March 31, 2024
Right to use subscription IT assets being amortized	$ 1,553,856	$ 9,001	$ -	$ 1,562,857
Less accumulated amortization	(384,940)	(394,439)	-	(779,379)
Total	$ 1,168,916	$ (385,438)	$ -	$ 783,478

	April 1, 2022	Additions	Reductions	March 31, 2023
Right to use subscription IT assets being amortized	$ 1,513,275	$ 40,581	$ -	$ 1,553,856
Less accumulated amortization	-	(384,940)	-	(384,940)
Total	$ 1,513,275	$ (344,359)	$ -	$ 1,168,916

The statement of revenue, expenses, and changes in net position for the year ended March 31, 2024 and 2023 includes right to use asset amortization of $394,439 and $384,940, respectively, within depreciation and amortization expense.

Note 9 - Self-Funded Health Insurance Plan

In response to amendments to Kansas Insurance Code related to multi-employer welfare arrangements, Great Plains Health Alliance (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 was a member organization in the Trust through June 30, 2022 and substantially all of PCHS' employees and their dependents were eligible to participate in the Plan through June 30, 2022.

Effective July 1, 2022, PCHS is partially self-funded for health benefits for eligible employees and their dependents. PCHS in connection with this plan, recognizes health benefit expenses on an accrual basis. An accrued liability is recognized at year-end which estimates the incurred by not reported claims that will be paid by PCHS. PCHS has stop loss insurance to cover catastrophic claims in excess of $50,000 per covered person. PCHS expenses amounts representing the employer's portion of actual claims paid, adjusted for the estimates of liabilities relating to claims resulted from services provided prior to the fiscal year end not to exceed the annual aggregate expense. The estimated liability is included in accrued salaries, vacation, benefits and taxes payable in the statements of net position. These amounts have been estimated based on historical trends and actuarial analysis. Changes in the balance of claims liabilities are as follows:

Fiscal Year	Beginning Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Liability
2024	$ 180,074	$ 558,840	$ (569,134)	$ 169,780
2023	$ -	$ 757,722	$ (577,648)	$ 180,074

Note 10 - Net Position

Of the $1,765,554 and $2,439,143 of unrestricted net position as of March 31, 2024 and 2023, respectively, $79,053 and $84,120 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, 2024 and 2023:

	2024	2023
Equipment	$ 300,000	$ -
Scholarships	35,159	40,259
Operations / other	95,231	53,463
	$ 430,390	$ 93,722

Note 11 - 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, 2024 and 2023, 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.

Note 12 - Pension Plan

PCHS maintains a contributory pension plan covering substantially all employees. Pension expense is reported 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 2024 and 2023. Contributions by plan members were $925,260 and $833,639 for 2024 and 2023, respectively. Contributions by PCHS were $807,952 and $784,007 for 2024 and 2023, respectively.

Note 13 - 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 $624,064 and $714,240 in 2024 and 2023, respectively. Amounts included in accounts payable related to these services totaled $-0- as of March 31, 2024 and 2023.

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. PCHS entered into a one-year service agreement that ends in November 2024. Under the terms of the agreement, Cerner will receive 1.99% of net receipts from patient services. Fees incurred under the service agreement totaled $275,977 and $285,824 for the years ended March 31, 2024 and 2023, respectively.

Note 14 - Other Operating Revenue

Other operating revenue for the years ended March 31, 2024 and 2023 consisted of the following:

	2024	2023
340B drug pricing program	$ 1,118,365	$ 788,323
Contract therapy	-	80,393
Operating grant	-	100,000
Cafeteria sales	38,963	38,311
Telemedicine	-	28,305
Loss on sale of capital assets	-	(18,750)
Miscellaneous revenue	359,200	113,638
	$ 1,516,528	$ 1,130,220

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 2024 and 2023, PCHS recognized $1,118,365 and $788,323, respectively, of other operating revenue related to the 340B Program contracts with unrelated pharmacies.

Note 15 - Adoption of New Standard and Restatement

As of April 1, 2022, PCHS adopted GASB Statement No. 96, Subscription-Based Information Technology Arrangements (SBITAs). The implementation of this standard establishes that a SBITA results in a right to use subscription IT asset – an intangible asset – and a corresponding liability. The standard provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA. The Statement requires recognition of certain SBITA assets and liabilities for SBITAs that previously were recognized as outflows of resources based on the payment provisions of the contract.

The Statement of Net Position as of March 31, 2023 were restated to retroactively adopt the provisions of GASB Statement No. 96 as follows:

	As Previously Reported 2023	Change	As Restated 2023
Prepaid expenses	$ 136,299	$ (12,953)	$ 123,346
Total current assets	4,390,853	(12,953)	4,377,900
Right of use subscription IT assets, net	-	1,168,916	1,168,916
Total noncurrent assets	3,325,954	(1,958,528)	1,367,426
Total assets	7,716,807	1,155,963	8,872,770
Current portion of subscription IT liabilities	-	429,973	429,973
Total current liabilities	2,187,523	429,973	2,617,496
Subscription IT liabilities, net of current portion	-	704,750	704,750
Total liabilities	2,504,708	1,134,723	3,639,431
Net position - Net investment in capital assets	2,666,281	34,193	2,700,474
Net position - Unrestricted	2,452,096	(12,953)	2,439,143
Total net position	5,212,099	21,240	5,233,339
Total liabilities and net position	7,716,807	1,155,963	8,872,770

The Statement of Revenue, Expenses and Changes in Net Position for the year ended March 31, 2023 were restated to retroactively adopt the provisions of GASB Statement No. 96 as follows:

	As Previously Reported 2023	Change	As Restated 2023
Supplies and other expenses	$ 3,744,274	$ (449,575)	$ 3,294,699
Depreciation and amortization	605,918	384,940	990,858
Total operating expenses	17,967,532	(64,635)	17,902,897
Operating loss	(1,992,403)	64,635	(1,927,768)
Interest expense	(18,100)	(43,395)	(61,495)
Total nonoperating revenue, net	1,004,035	(43,395)	960,640
Deficiency of revenue over expenses before capital grants and contributions	(988,368)	21,240	(967,128)
Change in net position	(988,368)	21,240	(967,128)
Net position, end of year	5,212,099	21,240	5,233,339

The Statement of Cash Flows for the year ended March 31, 2023 were restated to retroactively adopt the provisions of GASB Statement No. 96 as follows:

	As Previously Reported 2023	Change	As Restated 2023
Payments to suppliers and contractors	$ (7,195,420)	$ 462,528	$ (6,732,892)
Net cash used for operating activities	(1,916,513)	462,528	(1,453,985)
Principal paid on subscription IT liabilities	-	(419,133)	(419,133)
Interest paid	(18,100)	(43,395)	(61,495)
Net cash used for capital and related financing activities	(435,460)	(462,528)	(897,988)
Operating loss	(1,992,403)	64,635	(1,927,768)
Depreciation and amortization	605,918	384,940	990,858
Prepaid expenses	(9,272)	12,953	3,681
Net Cash Used for Operating Activities	(1,916,513)	462,528	(1,453,985)
Subscription IT liability for the acquisition of a right to use subscription IT asset	-	40,581	40,581