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

Financial Statements and Supplementary Information
March 31, 2023 and 2022

Together with Independent Auditor's Report

Phillips County Health Systems

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CPAs & BUSINESS ADVISORS

Independent Auditor's Report

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

Report on the Audit of the Financial Statements

Opinion

We have audited the 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, 2023 and 2022, and the related statement of revenue, expenses and changes in net position, and cash flows for the years ended, and the related notes to financial statements.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of PCHS as of March 31, 2023 and 2022, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) 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 opinion.

Emphasis of Matter

As discussed in Note 1(W) to the financial statements, PCHS has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases,* for the year ended March 31, 2023. 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' ability to continue as a going concern within one year after the date that the financial statements are issued.

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 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 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 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 are not affected by the missing information.



Omaha, Nebraska,
September 5, 2023.

Phillips County Health Systems

Statements of Net Position
March 31, 2023 and 2022

	2023	2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 833,155	2,174,706
Receivables -		
Patients, net of allowance of $1,061,729 for 2023 and $1,138,317 for 2022	1,954,210	2,391,371
Other	229,397	8,677
Inventories	293,819	285,238
Prepaid expenses	136,299	127,027
Estimated third-party payor settlements	943,973	--
Total current assets	4,390,853	4,987,019
Noncurrent assets:		
Assets limited as to use	93,722	82,009
Investments	9,500	9,500
Scholarships receivable	84,120	115,687
Capital assets, net	3,127,444	3,170,096
Leased assets, net	11,168	40,299
Total noncurrent assets	3,325,954	3,417,591
Total assets	$ 7,716,807	8,404,610
LIABILITIES		
Current liabilities:		
Current portion of lease liabilities	$ 24,097	34,626
Current portion of long-term debt	131,049	42,940
Accounts payable -		
Trade	664,258	480,635
Capital assets	--	51,834
Accrued salaries, vacation, benefits and taxes	1,368,119	1,326,702
Estimated third-party payor settlements	--	60,000
Total current liabilities	2,187,523	1,996,737
Noncurrent liabilities:		
Lease liabilities, net of current portion	--	24,648
Long-term debt, net of current portion	317,185	182,758
Total liabilities	2,504,708	2,204,143
NET POSITION		
Net investment in capital assets	2,666,281	2,873,589
Restricted for capital acquisitions or operations	93,722	82,009
Unrestricted	2,452,096	3,244,869
Total net position	5,212,099	6,200,467
Total liabilities and net position	$ 7,716,807	8,404,610

See notes to financial statements

Phillips County Health Systems

Statements of Revenue, Expenses and Changes in Net Position
For the Years Ended March 31, 2023 and 2022

	2023	2022
OPERATING REVENUE:		
Net patient service revenue, net of provision for uncollectible accounts of $386,100 for 2023 and $735,587 for 2022	$ 14,844,909	14,183,939
Other operating revenue	1,130,220	999,141
Total operating revenue	15,975,129	15,183,080
OPERATING EXPENSES:		
Salaries and wages	7,948,841	7,582,710
Employee benefits	2,020,016	1,755,735
Supplies and other expenses	3,744,274	3,231,465
Professional fees and purchased services	3,648,483	3,005,756
Depreciation and amortization	605,918	563,747
Total operating expenses	17,967,532	16,139,413
OPERATING LOSS	(1,992,403)	(956,333)
NONOPERATING REVENUE (EXPENSE):		
Property taxes	476,008	444,760
Noncapital grants and contributions	545,783	1,693,287
Investment income	344	1,337
Interest expense	(18,100)	(18,714)
Total nonoperating revenue, net	1,004,035	2,120,670
CHANGE IN NET POSITION	(988,368)	1,164,337
NET POSITION, BEGINNING OF YEAR	6,200,467	5,036,130
NET POSITION, END OF YEAR	$ 5,212,099	6,200,467

See notes to financial statements

Phillips County Health Systems

Statements of Cash Flows
For the Years Ended March 31, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from patients and third-party payors	$ 14,278,097	13,883,584
Cash paid to suppliers and contractors	(7,195,420)	(6,389,797)
Cash paid for employee salaries and benefits	(9,927,440)	(9,274,090)
Other receipts and payments, net	928,250	1,065,975
Net cash used in operating activities	(1,916,513)	(714,328)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property taxes	476,008	444,760
Noncapital grants and contributions	545,783	603,260
Net cash provided by noncapital financing activities	1,021,791	1,048,020
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Purchase of capital assets	(345,369)	(1,207,896)
Principal paid on long-term debt	(36,814)	(192,009)
Interest paid on long-term debt	(10,027)	(12,429)
Principal paid on leases payable	(35,177)	(50,976)
Interest paid on leases payable	(8,073)	(6,285)
Net cash used in capital and related financing activities	(435,460)	(1,469,595)
CASH FLOWS FROM INVESTING ACTIVITIES,		
Investment income	344	1,337
CHANGE IN CASH AND CASH EQUIVALENTS	(1,329,838)	(1,134,566)
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	2,256,715	3,391,281
CASH AND CASH EQUIVALENTS, END OF YEAR	$ 926,877	2,256,715
NONCASH INVESTING, CAPITAL, AND FINANCING ACTIVITIES:		
Financed capital purchase obligations for new equipment	$ 259,350	--
RECONCILIATION OF CASH AND CASH EQUIVALENTS:		
Cash and cash equivalents	$ 833,155	2,174,706
Assets limited as to use	93,722	82,009
	$ 926,877	2,256,715

See notes to financial statements

Phillips County Health Systems

Statements of Cash Flows (Continued)
For the Years Ended March 31, 2023 and 2022

	2023	2022
RECONCILIATION OF OPERATING LOSS TO NET CASH USED IN OPERATING ACTIVITIES:		
Operating loss	$ (1,992,403)	(956,333)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation and amortization	605,918	563,747
(Gain) loss on disposal of capital assets	18,750	(1,850)
(Increase) decrease in assets -		
Receivables -		
Patients	437,161	(646,484)
Other	(220,720)	68,684
Inventories	(8,581)	(40,197)
Prepaid expenses	(9,272)	11,425
Estimated third-party payor settlements	(943,973)	286,129
Scholarships	31,567	46,064
Increase (decrease) in liabilities -		
Accounts payable - trade	183,623	(169,868)
Accrued salaries, vacation, benefits and payroll taxes	41,417	64,355
Estimated third-party payor settlements	(60,000)	60,000
Net cash used in operating activities	$ (1,916,513)	(714,328)

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.

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 (P).

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 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.

K. Leases

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. The lease asset is initially measured as the initial amount of the lease liability, adjusted for lease payments made at or before the lease commencement date, plus certain initial direct costs. Subsequently, the lease asset is amortized on a straight-line basis over its useful life.

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

L. 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.

M. Group Health Insurance Costs

Effective July 1, 2022, 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, 2023 for claims incurred but not yet reported at year end.

N. 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.

O. 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.

P. 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.

Q. Property Taxes

PCHS received approximately 3% of its financial support from noncapital appropriations from the County property tax levy in 2023 and 2022. 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.

R. 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.

S. *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.

T. 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.

U. *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.

V. Recent Accounting Pronouncements

In May 2020, the Governmental Accounting Standards Board (GASB) issued Statement No. 96, *Subscription Based Information Technology Arrangements* (SBITAs*)*. The standard defines a SBITA as a contract that conveys control of the right to use another party's information technology software, alone or in combination with tangible capital assets, as specified in the contract for a period of time in an exchange or exchange-like transaction. As a result of this statement, a government should recognize a right-to-use subscription asset, an intangible asset, and a corresponding subscription liability. GASB Statement No. 96 is effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. Assets and liabilities resulting from SBITAs should be recognized and measured using the facts and circumstances that existed at the beginning of the fiscal year in which this Statement is implemented. PCHS is currently evaluating the effect the new standard will have on the financial statements.

W. Adoption of Accounting Pronouncement

Effective April 1, 2022, PCHS adopted the provisions of GASB Statement No. 87, *Leases*. The implementation of this standard establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The standard requires recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. See Notes 5 and 6 for right to use asset and lease liability disclosures related to the implementation of GASB 87.

X. Reclassifications

Certain amounts in the 2022 financial statements have been reclassified to conform to the 2023 reporting format.

Y. Subsequent Events

PCHS considered events occurring through September 5, 2023 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, 2021.

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 suspended this sequestration from May 1, 2020 to March 31, 2022. Effective April 1, 2022 through June 30, 2022 claims incurred a one percent reduction; thereafter a two percent reduction occurs.

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, 2023 and 2023:

		2023	2022
Gross patient service revenue:			
Inpatient	$	4,040,294	4,520,868
Outpatient		11,905,774	10,702,030
Clinic		2,724,611	2,150,777
Total gross patient services revenue		18,670,679	17,373,675
Deductions from gross patient service revenue:			
Medicare		1,002,665	595,758
Medicaid		705,418	722,036
Other payors		1,674,648	1,115,962
Charity care		56,939	18,393
Total deductions from gross patient service revenue		3,439,670	2,452,149
		15,231,009	14,921,526
Provision for uncollectible accounts		386,100	737,587
Net patient service revenue, net of provision for bad debts	$	14,844,909	14,183,939

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 69% and 74% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended March 31, 2023 and 2022, 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, 2023 and 2022, respectively, $461,387 and $1,876,670 of PCHS' bank balances of $1,001,666 and $2,420,279 were exposed to custodial credit risk as follows:

		2023	2022
Insured (FDIC) or collateralized with securities held by the Agency	$	540,259	543,609
Collateralized with securities held by pledging financial institution's trust department or agent in other than the Agency's name		231,631	622,241
Unsecured		229,756	1,254,429
Total deposits	$	1,001,666	2,420,279

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, 2023 and 2023:

		2023	2022
Included in the following statement of net position captions –			
Cash and cash equivalents	$	833,155	2,174,706
Investments - certificates of deposit		9,500	9,500
Assets limited as to use – cash and cash equivalents		93,722	82,009
	$	936,977	2,266,215

(4) Composition of Patient Receivables

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

		2023	2022
Patient accounts receivable	$	3,756,527	3,832,262
Less estimated third-party contractual adjustments		(740,588)	(302,574)
Less allowance for doubtful accounts		(1,061,729)	(1,138,317)
	$	1,954,210	2,391,371

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:

	2023	2022
Medicare	35%	43%
Medicaid	5	5
Blue Cross	10	9
Other third-party payors	15	16
Self-pay	35	36
	100%	100%

(5) Capital and Lease Assets

Capital assets activity for the years ended March 31, 2023 and 2022 was as follows:

		March 31, 2022	Additions	Transfers or Disposals	March 31, 2023
Capital assets, not being depreciated/amortized:					
Land	$	32,960	--	--	32,960
Construction in progress		387,240	228,415	22,896	638,551
		420,200	228,415	22,896	671,511
Capital assets, being depreciated/amortized:					
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		4,085,633	324,470	(61,814)	4,348,289
Total capital assets, being depreciated/amortized		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		(2,437,193)	(431,305)	131,652	(2,736,846)
Total accumulated depreciation/amortization		(8,328,862)	(576,787)	131,652	(8,773,997)
Total capital assets, being depreciated/amortized, 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

		March 31, 2021	Additions	Transfers or Disposals	March 31, 2022
Capital assets, not being depreciated/amortized:					
Land	$	32,960	--	--	32,960
Construction in progress		204,679	360,240	(177,679)	387,240
		237,639	360,240	(177,679)	420,200
Capital assets, being depreciated/amortized:					
Land improvements		115,541	--	--	115,541
Buildings		4,028,267	--	99,491	4,127,758
Fixed equipment		2,749,826	--	--	2,749,826
Major moveable equipment		3,297,945	724,540	63,148	4,085,633
Total capital assets, being depreciated/amortized		9,679,404	724,540	162,639	11,078,758
Less accumulated depreciation/amortization:					
Land improvements		(108,787)	(544)	--	(109,331)
Buildings		(3,398,806)	(103,850)	--	(3,502,656)
Fixed equipment		(2,206,191)	(73,491)	--	(2,279,682)
Major moveable equipment		(2,119,819)	(332,414)	15,040	(2,437,193)
Total accumulated depreciation/amortization		(7,833,603)	(510,299)	15,040	(8,328,862)
Total capital assets, being depreciated/amortized, net		1,845,801	214,241	177,679	2,749,896
Total capital assets, net	$	2,083,440	574,481	--	3,170,096

Lease assets activity for the years ended March 31, 2023 and 2022 was as follows:

		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

		March 31, 2021	Additions	Transfers or Disposals	March 31, 2022
Equipment	$	329,852	--	--	329,852
Less accumulated amortization		(236,105)	(53,448)	--	(289,553)
Lease assets, net	$	93,747	(53,448)	--	40,299

Depreciation and amortization expense of $605,918 and $563,747 for fiscal years 2023 and 2022, respectively, is included on the statements of revenue, expenses, and changes in net assets.

(6) Long-Term Obligations

A summary of long-term obligations activity for the years ending March 31, 2023 and 2022 is as follows:

	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
Lease liabilities (b)	59,274	--	(35,177)	24,097	24,097
Total	$ 284,972	259,350	(71,991)	472,331	155,146

	March 31, 2021	Borrowings	Payments	March 31, 2022	Due Within One Year
Financed capital purchases (a)	$ 267,237	--	(41,539)	225,698	42,940
Note payable (c)	150,470	--	(150,470)	--	--
Long-term debt	417,707	--	(192,009)	225,698	42,940
Lease liabilities (b)	110,250	--	(50,976)	59,274	34,626
Total	$ 527,957	--	(242,985)	284,972	77,566

(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.

(b) 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.

(c) Note payable to local bank, due in monthly installments of $2,900, including interest at 2.0%, through October 2025. Paid in full during 2022.

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

	Lease Liabilities			Financed Capital Purchases		
Year Ending	Principal	Interest	Total	Principal	Interest	Total
2024	$ 24,097	709	24,806	131,049	17,534	148,583
2025	--	--	--	137,465	11,118	148,583
2026	--	--	--	126,196	4,363	130,559
2027	--	--	--	53,524	1,185	54,709
	$ 24,097	709	24,806	448,234	34,200	482,434

Line of Credit

Subsequent to March 31, 2023, PCHS entered into a line of credit agreement up to $300,000 with a local bank.

(7) 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 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
2023	$ --	759,648	577,648	182,000

(8) Net Position

Of the $2,452,096 and $3,244,869 of unrestricted net position as of March 31, 2023 and 2022, respectively, $93,772 and $82,009 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, 2023 and 2022:

	2023	2022
Scholarships	$ 40,259	43,609
Operations / other	53,463	38,400
	$ 93,722	82,009

(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, 2023 and 2022, 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 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 2023 and 2022. Contributions by plan members were $833,639 and $800,724 for 2023 and 2023, respectively. Contributions by PCHS were $748,007 and $748,421 for 2023 and 2022, 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 $714,240 and $731,314 in 2023 and 2022, respectively. Amounts included in accounts payable related to these services totaled $0 and $79,359 as of March 31, 2023 and 2022, respectively.

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 2023. Under the terms of the agreement, Cerner will receive 1.99% of net receipts from patient services. Fees incurred under the service agreement totaled $285,824 and $239,737 for the years ended March 31, 2023 and 2022, respectively.

(12) Other Operating Revenue

Other operating revenue for the years ended March 31, 2023 and 2022 consisted of the following:

		2023	2022
340B drug pricing program	$	788,323	579,511
Contract therapy		80,393	134,068
Operating grant		100,000	100,000
Cafeteria sales		38,311	41,698
Telemedicine		28,305	30,235
Gain (loss) on sale of capital assets		(18,750)	1,850
Miscellaneous revenue		113,638	111,779
	$	1,130,220	999,141

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 2023 and 2023, PCHS recognized $788,323 and $579,511, respectively, of other operating revenue related to the 340B Program contracts with unrelated pharmacies.

(13) Noncapital Grants and Contributions

Noncapital grants and contributions for the years ended March 31, 2023 and 2022 consisted of the following:

		2023	2022
CARES Act Provider Relief Funds	$	--	1,190,027
Other		545,783	503,270
	$	545,783	1,693,297

CARES Act Provider Relief Funds

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law that provides $175 billion in relief funds to hospitals and other healthcare providers on the front line of the coronavirus response. This funding is to be used to support healthcare-related expenses or lost revenue attributable to the coronavirus and to ensure uninsured patients can get testing and treatment for the coronavirus. A portion of the funds was distributed to eligible providers beginning April 10, 2020 along with targeted distributions made in May 2020 and June 2021. The funds represent a stimulus grant which requires certain terms and conditions.

The Health System recognized $1,190,027 in 2022 within noncapital grants and contributions in satisfaction with terms and conditions agreed to with the Department of Health and Human Services (HHS). The Health System submitted to HHS documentation on how the Provider Relief Funds were used. HHS has continued to provide clarification of Provider Relief Funds usage. Management believes it has complied with the terms and conditions of funds. The documentation is subjected to audit up to three years after it is reported in the Provider Relief Fund portal.