Independent Auditor's Report and Financial Statements

Labette County Medical Center
d/b/a Labette Health

December 31, 2025 and 2024

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Labette County Medical Center
d/b/a Labette Health
Management's Discussion and Analysis
Years ended December 31, 2025 and 2024

Our discussion and analysis of the financial performance of Labette County Medical Center d/b/a Labette Health and our blended component units, Labette Health Endowment Association (LHEA) and Southeast Kansas Regional Health, Inc. (SEKRH), provides a narrative overview of Labette Health's financial activities for the years ended December 31, 2025 and 2024. Please read it in conjunction with the accompanying financial statements.

Financial highlights

Labette Health's net position increased by $3,759,801 or 6.3 percent in 2025 and increased by $2,740,907 or 4.9 percent in 2024.

Labette Health reported an operating loss of $1,217,265, $3,502,524, and $2,638,274 in 2025, 2024, and 2023, respectively.

Using these financial statements

Labette Health's financial statements consist of three statements - a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of Labette Health, including resources held by or for the benefit of Labette Health, and resources restricted for specific purposes by contributors, grantors, and indenture agreements.

One of the most important questions asked about Labette Health's finances is, "Is Labette Health as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about Labette Health's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. For purposes of these two statements, revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report Labette Health's net position and changes in it. Labette Health's net position - the difference between assets plus deferred outflows of resources, and liabilities - may be thought of as one way to measure its financial health, or financial position. Over time, increases or decreases in Labette Health's net position are one indicator of whether its financial health is improving or deteriorating. Consideration must also be given to other nonfinancial indicators, such as changes in Labette Health's patient base and measures of the quality of service it provides to the community, as well as local economic factors, to assess the overall health of Labette Health.

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

Assets, liabilities, and net position

Labette Health's statements of net position as of the end of each of the last three years are summarized as follows:

	2025	2024	2023
Assets			
Current assets	$ 45,730,787	$ 41,518,570	$ 37,962,743
Assets limited as to use	13,581,188	16,149,567	18,195,446
Capital assets, net	69,104,108	63,329,557	61,344,463
Other assets	10,862,353	10,759,536	10,896,580
Total assets	139,278,436	131,757,230	128,399,232
Deferred outflows of resources	146,728	171,571	201,965
Liabilities			
Current liabilities	(19,089,184)	(16,547,764)	(14,629,083)
Long-term liabilities	(57,069,824)	(56,148,866)	(57,480,850)
Total liabilities	(76,159,008)	(72,696,630)	(72,109,933)
Deferred inflows of resources	(274,184)	-	-
Net position	$ 62,991,972	$ 59,232,171	$ 56,491,264

Cash and cash equivalents in the current asset category decreased by $3,534,741 and by $388,167 in 2025 and 2024, respectively.

Net patient accounts receivable increased by $1,906,133 in 2025 and increased by $1,782,713 in 2024, respectively. The number of days of net revenue represented by net accounts receivable was 52 days, 49 days, and 43 days as of December 31, 2025, 2024, and 2023, respectively.

Net capital assets increased by $5,774,551 in 2025 and increased by $1,985,094 in 2024. Cash outlays for capital asset acquisitions totaled $8,299,606 during 2025, of which $2,305,587 was financed with proceeds from a note payable and the rest was paid for with operating cash flow and cash internally designated for capital acquisition. Cash outlays for capital asset acquisitions totaled $5,554,685 during 2024, of which $397,264 was financed with proceeds from a note payable and the rest was paid for with operating cash flow and cash internally designated for capital acquisition.

Labette Health's net position increased by $3,759,801 or 6.3 percent in 2025 and increased by $2,740,907 or 4.9 percent in 2024. The percentage of total assets financed with net position, or equity, was 45.2 percent, 44.9 percent, and 43.9 percent as of December 31, 2025, 2024, and 2023, respectively.

Operating results and changes in net position

Labette Health's operating results and changes in net position for each of the last three years are summarized as follows:

	2025	2024	2023
Operating revenues	$104,699,112	$ 96,813,622	$ 94,936,304
Operating expenses	105,916,377	100,316,146	97,574,578
Operating loss	(1,217,265)	(3,502,524)	(2,638,274)
Ambulance subsidy and sales tax revenue	1,006,859	1,030,931	891,673
Interest expense	(1,859,688)	(1,700,084)	(1,686,958)
Other nonoperating revenues	2,446,833	2,617,369	1,375,747
Other capital revenues	3,383,062	4,295,215	93,833
Change in net position	$ 3,759,801	$ 2,740,907	$ (1,963,979)

The first, and most significant, component of the overall change in Labette Health's net position is its operating income (loss) - generally, the difference between net patient service revenue and the expenses incurred to perform those services. Labette Health had an operating loss of $1,217,265 which represented a decrease in its loss of $2,285,259 in 2025. Labette Health had an operating loss of $3,502,524 which represented an increase on its loss of $864,250 in 2024.

Gross and net patient service revenue for the past three years are analyzed as follows:

	2025	2024	2023
Inpatient services	$ 30,970,615	$ 26,816,188	$ 28,911,769
Outpatient services	188,937,341	194,881,624	188,479,935
Physician services	37,102,879	33,687,482	34,864,865
Gross patient service revenue	257,010,835	255,385,294	252,256,569
Contractual adjustments	(143,210,254)	(151,234,044)	(153,992,207)
Provision for bad debts	(14,577,699)	(14,171,584)	(12,237,922)
Charity care	(1,580,145)	(1,343,619)	(1,211,799)
Net patient service revenue	$ 97,642,737	$ 88,636,047	$ 84,814,641

Labette Health strategically adjusted charges as needed to reflect higher costs during 2024. Total inpatient revenues increased by 15 percent during 2025. Inpatient revenues increased despite a decrease in acute and ICU days of 10.5 percent, a decrease in rehabilitation unit patient days of 23.4 percent, and decrease in nursery days of 12.4 percent in 2025 as a result of capturing more ancillary charges due to a computer system conversion. Total inpatient revenues decreased by 7.3 percent during 2024. The decrease was a result of a 9.6 percent decrease in acute and ICU patient days, a 12.9 percent decrease in rehabilitation unit patient days, and a 8.9 percent increase in nursery patients. Outpatient revenues decreased by 3.1 percent in 2025 and decreased by 3.4 percent in 2024. Due to changes in outpatient registrations and charge mix. Physician revenues increased by 10.1 percent in 2025 and decreased by 3.4 percent during 2024 due to a change in the number of visits and change master changes.

Labette Health has agreements with various third-party payors that provide for payments to it at amounts different from its established charge rates. These differences are referred to as contractual adjustments. These adjustments are affected by the mix of revenues as well as by increases in Labette Health's charge rates relative to changes in rates paid by third-party payors. Total contractual adjustments excluding charity care represent 55.7 percent, 59.2 percent, and 61.0 percent of gross patient service revenue during 2025, 2024, and 2023, respectively.

The provision for bad debts and charity care write-offs combined represent 6.3 percent, 6.1 percent, and 5.3 percent of gross patient service revenue during 2025, 2024, and 2023, respectively.

Employee salaries and wages increased by $2,372,086 or 5.2 percent during 2025 and increased by $1,505,073 or 3.4 percent during 2024. The number of full-time equivalent employees increased by 10 (1.5 percent) during 2025 and increased by 17 (2.7 percent) during 2024.

The cost of employee benefits equaled 17.7 percent, 19.8 percent, and 18.4 percent of salaries and wages during 2025, 2024, and 2023, respectively. Variations in employee benefit costs generally correlate with claims experience under Labette Health's self-insured employee health insurance plan.

Supplies and other expenses increased 5.6 percent during 2025 and increased by 0.9 percent during 2024. These changes are consistent with the patient volume fluctuations experienced by Labette Health combined with the general rate of health care inflation and the computer system conversion.

Nonoperating revenues include sales tax revenues received from the County. This subsidy offsets losses incurred by Labette Health in operating the local ambulance service.

This discussion and analysis is designed to provide a general overview of the Labette Health's finances and to discuss the significant changes in our financial statements. If you have any questions about our financial report, please contact the Administration Office at Labette Health.

Wendling Noe Nelson & Johnson LLC
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Independent Auditor's Report

Board of Trustees
Labette County Medical Center
d/b/a Labette Health

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented components units of Labette County Medical Center d/b/a Labette Health, a component unit of Labette County, Kansas, as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise Labette Health's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of Labette County Medical Center d/b/a Labette Health as of December 31, 2025 and 2024, and the respective changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States and the Kansas Municipal Audit and Accounting Guide. Our responsibilities under those standards are 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 Labette Health 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.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America 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 Labette Health'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 generally accepted auditing standards and *Government Auditing Standards* will always detect a material misstatement when it exists.

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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 generally accepted auditing standards and *Government Auditing Standards*, 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 Labette Health's 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 Labette Health's 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

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 1 through 4 be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Labette Health's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis, and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the basic financial statements themselves,

and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards,* we have also issued our report dated August 26, 2026, on our consideration of Labette Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Labette Health's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Labette Health's internal control over financial reporting and compliance.

Wendling Noe Nelson: Johnsen LLC

Topeka, Kansas
August 26, 2026

Financial Statements

Labette County Medical Center
d/b/a Labette Health
Statements of Net Position
December 31, 2025 and 2024

Assets and Deferred Outflows of Resources

	2025		2024	
	Labette Health	Component units	Labette Health	Component units
Current assets				
Cash and cash equivalents	$ 18,751,209	$ 286,571	$ 22,285,950	$ 208,581
Investments		879,602		435,322
Assets limited as to use	682,451		517,177	
Patient accounts receivable, net	13,787,988		11,881,855	
Lease receivables		173,689		168,562
Other receivables	1,105,848	44,952	2,278,674	6,574
Estimated third-party payor settlements	7,743,639		1,313,946	
Inventories	2,742,263		2,002,526	
Prepaid expenses	917,389		1,238,442	
Total current assets	45,730,787	1,384,814	41,518,570	819,039
Assets limited as to use				
Internally designated for capital assets	11,372,017	298,700	13,956,964	298,700
Under indenture agreement - held by trustee	687,417		748,008	
By County for capital assets	1,933,905		1,691,472	
Under indenture or loan agreement				
For debt service		212,376		185,385
For specific operating activities	270,300		270,300	
By contributors for specific operating activities		4,233,790		3,932,540
	14,263,639	4,744,866	16,666,744	4,416,625
Less amounts required to meet current obligations	682,451		517,177	
	13,581,188	4,744,866	16,149,567	4,416,625
Capital assets				
Capital assets not being depreciated	2,086,720	352,831	7,516,193	352,831
Depreciable capital assets, net	46,024,695	2,868,341	40,213,740	3,246,630
Lease assets, net	14,769,683		15,411,882	
Subscription IT assets, net	6,223,010		187,742	
Capital assets, net	69,104,108	3,221,172	63,329,557	3,599,461
Other assets				
Leverage loan receivable	9,959,600		9,959,600	
Advances receivable	538,569		709,936	
Lease receivables, less current portion	274,184	14,115,858		14,289,547
Other	90,000	4,372	90,000	160,730
	10,862,353	14,120,230	10,759,536	14,450,277
Total assets	139,278,436	23,471,082	131,757,230	23,285,402
Deferred outflows of resources				
Deferred outflows on advance refunding	146,728		171,571	
Total deferred outflows of resources	146,728	-	171,571	-
Total assets and deferred outflows of resources	$ 139,425,164	$ 23,471,082	$ 131,928,801	$ 23,285,402

The accompanying notes are an integral part of these statements.

Liabilities, Deferred Inflows of Resources, and Net Position

	2025		2024	
	Labette Health	Component units	Labette Health	Component units
Current liabilities				
Line of credit payable	$ 1,537,426	$ -	$ 1,383,750	$ -
Current maturities of long-term debt	2,726,143	134,358	1,621,000	131,138
Current maturities of lease liabilities	276,984		467,414	
Current maturities of subscription IT liabilities	1,114,481		146,714	
Accounts payable	7,407,740		6,065,818	
Construction costs payable			994,648	
Due to Labette Health		3,750		1,816
Accrued salaries, wages, and benefits	3,575,079		3,286,154	
Accrued compensated absences	1,937,016		1,988,926	
Accrued interest payable	189,230		190,236	
Accrued health insurance claims	310,257		290,000	
Estimated third-party payor settlements			40,495	
Other current liabilities	14,828		72,609	
Total current liabilities	19,089,184	138,108	16,547,764	132,954
Long-term liabilities				
Long-term debt less current maturities	38,746,242	4,882,926	40,414,264	5,017,284
Lease liabilities less current maturities	14,824,667		15,105,852	
Subscription IT liabilities less current maturities	2,814,915		17,750	
Accrued compensated absences less current portion	684,000		611,000	
Total long-term liabilities	57,069,824	4,882,926	56,148,866	5,017,284
Total liabilities	76,159,008	5,021,034	72,696,630	5,150,238
Deferred inflows of resources				
Deferred inflows of resources arising from leases	274,184	14,289,547		14,458,109
Net position				
Net investment in capital assets	10,655,604	(1,796,112)	7,746,925	(1,550,777)
Restricted				
For debt service	270,300	212,376	270,300	185,385
Expendable for capital acquisitions	1,933,905		1,691,472	
Expendable for specific operating activities		4,233,790		3,932,540
Unrestricted	50,132,163	1,510,447	49,523,474	1,109,907
Total net position	62,991,972	4,160,501	59,232,171	3,677,055
Total liabilities, deferred inflows of resources, and net position	$ 139,425,164	$ 23,471,082	$ 131,928,801	$ 23,285,402

Labette County Medical Center
d/b/a Labette Health
Statements of Revenues, Expenses, and Changes in Net Position
Years ended December 31, 2025 and 2024

	2025		2024	
	Labette Health	Component units	Labette Health	Component units
Operating revenues				
Net patient service revenue	$ 97,642,737	$ -	$ 88,636,047	$ -
Other	7,056,375	801,710	8,177,575	677,850
Total operating revenues	104,699,112	801,710	96,813,622	677,850
Operating expenses				
Salaries and wages	48,154,283		45,782,197	
Employee benefits	8,544,309		9,064,867	
Supplies and other	42,882,432	407,575	40,626,597	2,240,126
Depreciation and amortization	6,335,353	378,289	4,842,485	382,943
Total operating expenses	105,916,377	785,864	100,316,146	2,623,069
Operating income (loss)	(1,217,265)	15,846	(3,502,524)	(1,945,219)
Nonoperating revenues (expenses)				
Ambulance subsidy	472,505		650,519	
Investment income	733,133	585,736	963,133	574,886
Interest expense	(1,859,688)	(123,886)	(1,700,084)	(127,376)
Noncapital grant and contributions	1,598,103		1,653,010	
Other	115,597	5,750	1,226	23,497
Total nonoperating revenues (expenses)	1,059,650	467,600	1,567,804	471,007
Excess of revenues over (under) expenses, before grants, contributions, and sales tax revenue restricted for capital purposes	(157,615)	483,446	(1,934,720)	(1,474,212)
Capital grants and contributions	3,383,062		4,295,215	
Sales tax revenue restricted for capital purchases	534,354		380,412	
Change in net position	3,759,801	483,446	2,740,907	(1,474,212)
Net position at beginning of year	59,232,171	3,677,055	56,491,264	5,151,267
Net position, end of year	$ 62,991,972	$ 4,160,501	$ 59,232,171	$ 3,677,055

The accompanying notes are an integral part of these statements.

Labette County Medical Center
d/b/a Labette Health
Statements of Cash Flows
Years ended December 31, 2025 and 2024

	2025		2024	
	Labette Health	Component units	Labette Health	Component units
Cash flows from operating activities				
Receipts from and on behalf of patients	$ 89,266,416	$ -	$ 86,472,865	$ -
Payments to or on behalf of employees	(56,368,320)		(54,443,235)	
Payments for supplies and services	(42,889,455)	(447,497)	(40,360,307)	(2,284,687)
Other receipts and payments	8,436,095	1,060,312	8,200,087	1,025,642
Net cash provided (used) by operating activities	(1,555,264)	612,815	(130,590)	(1,259,045)
Cash flows from noncapital financing activities				
Ambulance subsidy	495,706		623,126	
Proceeds from line of credit	2,656,059		3,156,063	
Principal payments on line of credit	(2,502,383)		(3,156,876)	
Interest paid	(53,447)		(42,308)	
Noncapital grants and contributions	1,537,916		1,684,617	
Net cash provided by noncapital financing activities	2,133,851	-	2,264,622	-
Cash flows from capital and related financing activities				
Acquisition of capital assets	(8,299,606)		(5,554,685)	
Proceeds from notes payable	2,305,587		397,264	
Principal payments on long-term debt	(2,868,466)	(131,138)	(1,779,587)	(127,649)
Principal payments on lease liabilities	(471,615)		(688,068)	
Principal payments on subscription IT liabilities	(945,048)		(108,027)	
Interest paid	(1,782,404)	(123,886)	(1,620,291)	(127,376)
Capital grants and contributions	4,162,223		3,401,583	
Proceeds from sale of capital assets	115,597		7,136	
Sales tax revenue restricted for capital purchases	534,354		380,412	
Net cash used by capital and related financing activities	(7,249,378)	(255,024)	(5,564,263)	(255,025)
Cash flows from investing activities				
Changes in				
Assets held by trustee	60,591		(7,702)	
Investments		(416,929)		(24,369)
Investment income received	746,695	718,978	1,007,209	562,010
Net cash provided by investing activities	807,286	302,049	999,507	537,641
Net change in cash and cash equivalents	(5,863,505)	659,840	(2,430,724)	(976,429)
Cash and cash equivalents at beginning of year	38,149,938	4,366,513	40,580,662	5,342,942
Cash and cash equivalents at end of year	$ 32,286,433	$ 5,026,353	$ 38,149,938	$ 4,366,513

Labette County Medical Center
d/b/a Labette Health
Statements of Cash Flows - Continued
Years ended December 31, 2025 and 2024

	2025		2024	
	Labette Health	Component units	Labette Health	Component units
Reconciliation of cash and cash equivalents				
Cash and cash equivalents	$ 18,751,209	$ 286,571	$ 22,285,950	$ 208,581
Cash included in assets limited as to use				
Internally designated for capital assets	11,331,019	298,700	13,902,216	298,700
By County for capital assets	1,933,905		1,691,472	
Under indenture or loan agreement	270,300	212,376	270,300	185,385
For specific operating activities		4,228,705		3,673,846
Total cash and cash equivalents	$ 32,286,433	$ 5,026,352	$ 38,149,938	$ 4,366,512
Reconciliation of operating income (loss) to net cash provided (used) by operating activities				
Operating income (loss)	$ (1,217,265)	$ 15,846	$ (3,502,524)	$ (1,945,219)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities				
Depreciation and amortization	6,335,353	378,289	4,842,485	382,943
Provision for bad debts	14,577,699		14,171,584	
Changes in				
Patient accounts receivable	(16,483,832)		(15,954,297)	
Other receivables	370,652		(131,702)	
Pledges receivable		258,602		347,792
Advances receivable	171,367		167,044	
Estimated third-party payor settlements	(6,470,188)		(380,469)	
Inventories	(739,737)		(61,052)	
Prepaid expenses	321,053		(695,524)	
Accounts payable and accrued expenses	1,579,634	(39,922)	1,413,865	(44,561)
Net cash provided (used) by operating activities	$ (1,555,264)	$ 612,815	$ (130,590)	$ (1,259,045)

The accompanying notes are an integral part of these statements.

Labette County Medical Center
d/b/a Labette Health
Notes to Financial Statements
December 31, 2025 and 2024

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

The financial statements of Labette County Medical Center d/b/a Labette Health, a component unit of Labette County, Kansas, have been prepared in accordance with generally accepted accounting principles in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting and reporting policies and practices used by Labette Health are described below.

1. Reporting entity

Labette Health is owned by Labette County, Kansas (the County), and governed by a nine-member Board of Trustees appointed by the Board of County Commissioners of the County. Labette Health is a not-for-profit general hospital located in Parsons, Kansas. Labette Health can sue and be sued and can buy, sell, or lease real property. Bond issuances must be approved by the County. Labette Health is a component unit of the County.

Labette Health Endowment Association (LHEA) is a 501(c)(3) nonprofit corporation. Labette Health's management performs the day-to-day management of LHEA's operations and the debt of LHEA is expected to be repaid entirely with the resources of Labette Health through lease payments made to LHEA for the use of certain hospital space. LHEA is a separate legal entity but is financially integrated with Labette Health and is reported as a blended component unit of Labette Health and does not issue separate financial statements. The sole corporate member of LHEA is Labette Health. All significant intercompany accounts have been eliminated in the accompanying financial statements.

Southeast Kansas Regional Health, Inc. (SEKRH), is a not-for-profit corporation formed to establish, maintain, operate, and support both within Montgomery County, Neosho County, and Labette County, Kansas, and in the surrounding region, facilities and services providing health care, or health and wellness support, for sick, injured, disabled, or aged persons. SEKRH is a separate legal entity. SEKRH is administered by a ten-member Board of Directors of which five members are appointed by Labette Health's Board of Trustees. SEKRH is reported as a blended component unit of Labette Health as SEKRH's debt is expected to be repaid entirely by Labette Health. SEKRH does not issue separate financial statements. All significant intercompany accounts have been eliminated in the accompanying financial statements.

For financial reporting purposes, Labette Health has considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with Labette Health are such that the exclusion would cause Labette Health's financial situation to be misleading or incomplete. The GASB has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of Labette Health to impose its will on that organization, or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on Labette Health.

The component units discussed in Note A2 are included in Labette Health's reporting entity because of the nature and significance of their relationships with Labette Health.

2. Discretely presented component units

The financial statements include the financial data of the aggregate discretely presented component units described below. The component units are reported separately to emphasize that they are legally separate from Labette Health.

Note A - Description of Reporting Entity and Summary of Significant Accounting Policies - Continued

Labette Health Foundation, Inc. (the Foundation), is a not-for-profit corporation formed to receive, invest, and disburse funds received for the benefit, support, and maintenance of Labette Health. The Foundation is a legally separate component unit of Labette Health. The Foundation is administered by a Board of Directors, of which four members are appointed by Labette Health's Board of Trustees. Although Labette Health does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Foundation holds and invests are restricted to the activities of Labette Health by the donors or are provided to Labette Health for its programs. Because the majority of resources held by the Foundation can only be used by, or for the benefit of, Labette Health and for the benefit of patients served by Labette Health, the Foundation is considered a component unit of Labette Health and is discretely presented in Labette Health's financial statements.

Labette Health Regional Partnerships, Inc. (LHRP), is a not-for-profit corporation formed to establish, maintain, operate, and support both within Labette County, Kansas, and in the surrounding region, facilities and services providing health care, or health and wellness support, for sick, injured, disabled, or aged persons. LHRP is administered by a five-member Board of Directors of which three members are appointed by Labette Health's Board of Trustees. Because of Labette Health's ability to appoint the majority of LHRP's Board of Directors, LHRP is considered a component unit of Labette Health and is discretely presented in Labette Health's financial statements.

The Foundation, LHRP, and SEKRH are not-for-profit organizations that report under the Financial Accounting Standards Board (FASB) standards, including Topic 958. As such, certain revenue recognition criteria and presentation are different from GASB revenue recognition criteria and presentation. Modifications have been made to the Foundation, LHRP, and SEKRH's financial information in the reporting entity for these differences.

3. Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from these estimates.

4. Basis of accounting

Labette Health and its component units use enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

5. Cash and cash equivalents

Labette Health and its component units consider all cash and invested cash to be cash equivalents, excluding any assets limited as to use under bond indenture agreements held by a trustee and items classified as investments by the Foundation.

6. Allowance for uncollectible accounts

Labette Health provides for accounts receivable that could become uncollectible in the future by establishing an allowance to reduce the carrying value of such receivables to their estimated net realizable value. Labette Health estimates this allowance based on the aging of its accounts receivable and its historical collection experience for each type of payor. Net patient accounts receivable at December 31, 2025 and 2024, include allowance for uncollectible accounts of $11,369,050 and $5,293,163, respectively.

Note A - Description of Reporting Entity and Summary of Significant Accounting Policies - Continued

7. Inventories

Inventories are stated at the lower of cost or market with cost determined on the average cost method.

8. Investments and investment income

Investments in debt and equity securities are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating revenues when earned.

9. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for replacement of capital assets or for purchase of additional capital assets, over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets held by a trustee under bond indenture agreements; assets restricted by the County for capital asset acquisitions; assets restricted as to use by loan agreements; and assets restricted by contributors for capital acquisition or a particular purpose. Amounts that are required for obligations classified as current liabilities are reported in current assets.

10. Lease receivables

Lease receivables are measured at the present value of lease payments expected to be received during the lease term. The present value of future payments to be received are discounted based on the interest rate determined at the time of the lease. Renewal options are factored into the determination of lease payments when appropriate.

11. Capital assets

Capital assets excluding lease assets and subscription IT assets are stated at cost. Depreciation of capital assets excluding lease assets and subscription IT assets are provided on the straight-line method over the estimated useful lives of the assets. Estimated lives are based on a third-party guide prepared based on a review of Labette Health's capital assets.

Lease assets are recognized at the lease commencement date and represent the right-to-use an underlying asset for the lease term. Leased assets are measured at the initial value of the lease liability at the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus any initial direct costs necessary to place the lease asset into service. Leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method or the same method used to amortize the lease liability.

Subscription IT assets are recognized at the subscription commencement date and represent Labette Health's right to use an underlying IT asset for the subscription term. Subscription IT assets are measured at the initial value of the subscription IT liability, plus subscription payments made at or before the commencement of the subscription-based information technology arrangement (SBITA) term, less any SBITA vendor incentives received from the SBITA vendor at or before the commencement of the SBITA term, plus capitalizable initial implementation costs. Subscription IT assets are amortized over the shorter of the subscription term or useful life of the underlying asset using the straight-line method or the same method amortizing the subscription liability.

Note A - Description of Reporting Entity and Summary of Significant Accounting Policies - Continued

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals, and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. Gains and losses on disposition of capital assets are included in nonoperating revenues and expenses.

12. Lease liabilities

Lease liabilities represent obligations to make payments arising from lease agreements. Lease liabilities are recognized at the lease commencement date based on the present value of future lease payments expected to be made during the lease term. The present value of lease payments are discounted based on the rate implicit in the lease or Labette Health's incremental borrowing rate.

13. Subscription IT liabilities

Subscription IT liabilities represent obligations to make payments arising from SBITAs. Subscription IT liabilities are recognized at the SBITA commencement date based on the present value of future SBITA payments expected to be made during the SBITA term. The present value of SBITA payments are discounted based on the rate implicit in the SBITA or Labette Health's incremental borrowing rate.

14. Costs of borrowing

Original issue premiums and discounts and deferred outflows on advance refunding associated with issuance of long-term debt are amortized using the interest method over the term of the related debt. Other costs incurred to issue long-term debt are expensed in the period incurred.

15. Grants and contributions

From time to time, Labette Health and its component units receive grants and contributions from individuals and private organizations. Revenues from grants and contributions, including contributions of capital assets, are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

16. Restricted resources

When Labette Health and its component units have both restricted and unrestricted resources available to finance a particular program, their policy is to use restricted resources before unrestricted resources.

17. Accrued health insurance claims

Labette Health is self-insured for health insurance claims of its employees. Management estimates the net liability for reported and unreported claims incurred as of the end of each reporting period. These estimates are based on known claims and historical claims experience.

Management believes that estimates for accrued health insurance claims are reasonable. However, it is possible that actual incurred claims expense may vary significantly from the estimate included in the accompanying financial statements.

Note A - Description of Reporting Entity and Summary of Significant Accounting Policies - Continued

18. Compensated absences

Employees are entitled to paid time off (PTO) depending on length of service and whether they are full-time or part-time. PTO vests and may be carried forward by an employee in an amount not to exceed hourly limits based on length of employment. Upon retirement, resignation, or termination from service, employees who have been employed over two years are entitled to payment for all accrued unused PTO. PTO benefits are expensed and accrued as earned under Labette Health's PTO policy, with the vested amount recorded as a current accrued liability.

Employees are also entitled to extended illness benefits depending on whether they are full-time or part-time. Upon retirement, resignation, or termination from service, employees are not entitled to payment for accrued extended illness. Labette Health accrues a current and noncurrent estimate of vested extended illness benefits that are expected to be used based on historical usage.

19. Deferred outflows and inflows of resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. Deferred inflows of resources pertaining to leases are measured at the value of lease receivables plus any prepayments received at or before the commencement of the lease term that relate to future periods. Revenue is recognized from deferred inflows in a systematic and rational manner over the term of the lease.

20. Net position

Net position of Labette Health and its component units is classified in three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and amortization reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted expendable net position* is net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to Labette Health and its component units, including amounts deposited with trustees as required by indenture agreements. *Unrestricted net position* is remaining net position that does not meet the definitions of the other two components of net position.

21. Operating revenues and expenses

Labette Health's statement of revenues, expenses, and changes in net position and those of its component units, distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is Labette Health's principal activity. Nonexchange revenues, including noncapital grants and contributions and the noncapital ambulance subsidy, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

22. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, charity care, contractual adjustments, and provision for bad debts, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Note A - Description of Reporting Entity and Summary of Significant Accounting Policies - Continued

23. Charity care

Labette Health provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because Labette Health does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

24. Income taxes

Labette Health is exempt from federal income taxes pursuant to Sections 115 and 501(a) of the Internal Revenue Code.

LHEA is exempt from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code and is exempt from federal income taxes on its related income pursuant to Section 501(a) of the Code. LHEA is considered a qualified active low-income community business.

The Foundation, LHRP, and SEKRH are not-for-profit corporations as described in Section 501(c)(3) of the Internal Revenue Code and are exempt from federal income taxes on their related income pursuant to Section 501(a) of the Code.

Management is not aware of any uncertainties in income tax positions. Tax years ended on or before December 31, 2021, are not subject to examination by taxing authorities.

25. Subsequent events

Labette Health and its component units have evaluated subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued. See Note X for subsequent events identified.

Note B - Net Patient Service Revenue

Labette Health has agreements with third-party payors that provide for payments to it at amounts different from its established charge rates. The amounts reported on the statements of net position as estimated third-party payor settlements consist of the estimated differences between the contractual amounts for providing covered services and the interim payments received for those services. A summary of the payment arrangements with major third-party payors follows:

Medicare - Inpatient acute and rehabilitation care services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. Outpatient services are paid at prospectively determined rates per occasion of service. Physician services, other than rural health clinic (RHC) services, rendered to Medicare program beneficiaries are paid based on a prospectively determined fee schedule. The prospectively determined rates vary according to patient classification systems that are based on clinical, diagnostic, and other factors. RHC physician services are paid based on cost reimbursement methodologies. Labette Health is paid for cost reimbursable and other items at tentative rates with final settlement determined after submission of annual cost reports by Labette Health and audits or reviews thereof by the Medicare administrative contractor. Labette Health's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. Labette Health's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2024.

Note B - Net Patient Service Revenue - Continued

Labette Health is classified as a sole community hospital (SCH) under the Medicare program. As a result, its inpatient operating diagnosis related group (DRG) payments are based on the higher of its hospital-specific operating DRG rate or the federal operating DRG rate upon which those payments would be based if Labette Health did not have SCH status. Labette Health is also qualified under the Medicare program to receive low-volume add-on payments for inpatient services.

Medicaid - Inpatient acute and rehabilitation care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on a fee-for-service basis.

Labette Health participated in the Health Care Access Improvement Program (HCAIP) during 2025 and 2024. The HCAIP program is funded by an assessment imposed on hospitals pursuant to K.S.A. 65-6208. The assessment is used to draw down federal matching dollars to help improve access to medical care and is distributed through different funding pools as directed by the Medicaid state plan. The assessment is typically due on a bi-annual basis. The state directed payments distributed from the HCAIP Enhanced Pool are typically distributed on an interim basis based on encounter data quarterly with an annual reconciliation occurring the following year. In connection with the HCAIP program, Labette Health recognized revenues totaling $15,522,476 and $4,764,072 and expenses totaling $4,214,625 and $2,029,185 during the years ended December 31, 2025 and 2024, respectively. As of December 31, 2025 and 2024, Labette Health had amounts receivable from the HCAIP program of $7,518,639 and $1,313,946, respectively. As of December 31, 2025 and 2024, Labette Health had amounts payable to the HCAIP program totaling $2,148,172 and $861,024, respectively.

The Kansas Medicaid program provides additional payments to qualifying providers under a reimbursement formula that incorporates uncompensated care costs, Kansas Medicaid utilization, public support of the provider, and other factors. Labette Health qualified for these disproportionate share payments through September 30, 2024.

Blue Cross and Blue Shield - All services rendered to patients who are insured by Blue Cross and Blue Shield are paid on the basis of prospectively determined rates per discharge or discounts from established charges.

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

Note B - Net Patient Service Revenue - Continued

A summary of gross and net patient service revenue follows:

	2025	2024
Gross patient service revenue	$257,010,835	$255,385,294
Contractual adjustments	(143,210,254)	(151,234,044)
Provision for bad debts	(14,577,699)	(14,171,584)
Charity care	(1,580,145)	(1,343,619)
Net patient service revenue	$ 97,642,737	$ 88,636,047

Revenue from the Medicare and Medicaid programs accounted for approximately 25 percent and 24 percent, respectively, of Labette Health's net patient service revenue during 2025, and 21 percent and 14 percent, respectively, of Labette Health's net patient service revenue during 2024. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

Note C - Deposits with Financial Institutions

Custodial credit risk is the risk that in an event of a bank failure, a government's deposits may not be returned to it. Labette Health's deposit policy of custodial credit risk requires compliance with the provisions of State law. In addition, Labette Health, LHEA, SEKRH, LHRP, and the Foundation maintain their cash in banks which are insured by the Federal Deposit Insurance Corporation (FDIC).

Kansas statutes authorize Labette Health with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, U.S. Treasury bills and notes, and the State Treasurer's investment pool. Kansas statutes also require that collateral be pledged for bank deposits with a fair value equal to 100 percent of the uninsured amounts and must be assigned for the benefit of Labette Health.

At December 31, 2025, the carrying amount of Labette Health's bank deposits, including certificates of deposit, was $32,001,880 and the bank balances were $33,169,531. Of the bank balances, $12,369,363 was covered by federal depository insurance $20,051,789 was covered by collateral held by third-party banks, but not registered in Labette Health's name, and $748,379 was unsecured and uncollateralized.

At December 31, 2025, the carrying amount and balances of LHEA's bank deposits were $270,515. Of the bank balances, $250,000 was covered by federal depository insurance and $20,515 was unsecured and uncollateralized.

At December 31, 2025, the carrying amount and balance of SEKRH's bank deposits were $12,637, which was covered by federal depositary insurance.

At December 31, 2025, the carrying amount and balance of LHRP's bank deposits were $2,671, which was covered by federal depository insurance.

At December 31, 2025, the carrying amount of the Foundation's deposits including certificates of deposit was $5,023,680 and balances of the Foundation's bank deposits were $5,024,840. Of the bank balances, $3,215,993 was covered by federal depository insurance, $284,519 was covered by collateral held by third-party banks, and $1,524,328 was unsecured and uncollateralized.

Note D - Assets Limited as to Use

The composition of Labette Health's assets limited as to use is as follows:

	2025	2024
Internally designated for capital assets		
Cash	$ 813,671	$ 3,442,136
Certificates of deposit	10,517,348	10,460,080
Interest receivable	40,998	54,748
	$ 11,372,017	$ 13,956,964
Under indenture agreement - held by trustee		
Money market funds	$ 687,417	$ 748,008
By County for capital assets		
Cash	$ 1,933,905	$ 1,691,472
Under indenture or loan agreement		
Cash	$ 270,300	$ 270,300

The composition of the discretely presented component units' assets limited as to use is as follows:

	2025	2024
Internally designated for capital assets		
Cash	$ 298,700	$ 298,700
Under loan agreement		
Cash	$ 212,376	$ 185,385
By contributors for specific operating activities		
Cash	$ 1,702,655	$ 1,232,432
Certificates of deposit	2,526,050	2,441,414
Pledges receivable	5,085	258,694
	$ 4,233,790	$ 3,932,540

Note E - Investments

The discretely presented component units' investments are stated at fair value. The composition of their investments is as follows:

	2025	2024
Money market funds	$ 391,811	$ 13,058
Common stocks	72,625	66,969
Equity mutual and exchange traded funds	238,829	195,652
Fixed income mutual and exchange traded funds	155,227	146,328
Real estate exchange traded funds	21,110	13,315
	$ 879,602	$ 435,322

Note F - Fair Value of Financial Instruments

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value is determined according to a hierarchy that gives highest priority to use of observable inputs and lowest priority to use of unobservable inputs. These inputs are described as follows:

Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 inputs are other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable, supported by little or no market activity, and are significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used for assets measured at fair value on a recurring basis:

Equity and fixed income mutual funds and exchange traded funds (ETFs) and common stocks are valued at unadjusted quoted prices for identical securities in active markets.

Note F - Fair Value of Financial Instruments - Continued

The following tables set forth, by level, the discretely presented component units' assets measured at fair value on a recurring basis:

	December 31, 2025			
	Level 1	Level 2	Level 3	Total
Common stocks	$ 72,625	$ -	$ -	$ 72,625
Equity mutual funds and ETFs	238,829			238,829
Fixed income mutual funds and ETFs	155,227			155,227
Real estate ETFs	21,110			21,110
	$ 487,791	$ -	$ -	$ 487,791

	December 31, 2024			
	Level 1	Level 2	Level 3	Total
Common stocks	$ 66,969	$ -	$ -	$ 66,969
Equity mutual funds and ETFs	195,652			195,652
Fixed income mutual funds and ETFs	146,328			146,328
Real estate ETFs	13,315			13,315
	$ 422,264	$ -	$ -	$ 422,264

Note G - Capital Assets

Capital asset additions, retirements, and balances for Labette Health are as follows:

	2025			
	Beginning balance	Additions	Transfers and retirements	Ending balance
Capital assets not being depreciated				
Land	$ 949,808	$ -	$ -	$ 949,808
Construction in progress	6,566,385	4,828,609	(10,258,082)	1,136,912
Total capital assets not being depreciated	7,516,193	4,828,609	(10,258,082)	2,086,720
Capital assets being depreciated				
Land improvements		8,839	198,230	207,069
Buildings	74,813,833	111,184	5,740,886	80,665,903
Fixed equipment	18,188,051	93,925	1,200,369	19,482,345
Major movable equipment	24,973,836	2,006,462	(382,786)	26,597,512
Total capital assets being depreciated	117,975,720	2,220,410	6,756,699	126,952,829
Less accumulated depreciation				
Land improvements		10,828		10,828
Buildings	48,668,041	1,860,567		50,528,608
Fixed equipment	10,634,699	560,160		11,194,859
Major movable equipment	18,459,240	1,583,938	(849,339)	19,193,839
Total accumulated depreciation	77,761,980	4,015,493	(849,339)	80,928,134
Total capital assets being depreciated, net	40,213,740	(1,795,083)	7,606,038	46,024,695
Lease assets being amortized				
Buildings	16,456,537		(80,411)	16,376,126
Major movable equipment	2,282,810		(1,837,969)	444,841
Total lease assets being amortized	18,739,347	-	(1,918,380)	16,820,967
Less accumulated amortization				
Buildings	1,457,538	389,627	(80,411)	1,766,754
Major movable equipment	1,869,927	252,572	(1,837,969)	284,530
Total accumulated amortization	3,327,465	642,199	(1,918,380)	2,051,284
Total lease assets being amortized, net	15,411,882	(642,199)	-	14,769,683
Subscription IT assets being amortized	420,903	5,060,885	2,652,044	8,133,832
Less accumulated amortization	233,161	1,677,661	-	1,910,822
Total subscription IT assets being amortized, net	187,742	3,383,224	2,652,044	6,223,010
Capital assets, net	$ 63,329,557	$ 5,774,551	$ -	$ 69,104,108

Note G - Capital Assets - Continued

	2024			
	Beginning balance	Additions	Transfers and retirements	Ending balance
Capital assets not being depreciated				
Land	$ 949,808	$ -	$ -	$ 949,808
Construction in progress	1,834,799	5,257,139	(525,553)	6,566,385
Total capital assets not being depreciated	2,784,607	5,257,139	(525,553)	7,516,193
Capital assets being depreciated				
Buildings	74,716,242	45,560	52,031	74,813,833
Fixed equipment	18,169,119	7,932	11,000	18,188,051
Major movable equipment	24,053,954	600,414	319,468	24,973,836
Total capital assets being depreciated	116,939,315	653,906	382,499	117,975,720
Less accumulated depreciation				
Buildings	46,846,107	1,821,934		48,668,041
Fixed equipment	10,068,171	566,528		10,634,699
Major movable equipment	17,083,840	1,456,390	(80,990)	18,459,240
Total accumulated depreciation	73,998,118	3,844,852	(80,990)	77,761,980
Total capital assets being depreciated, net	42,941,197	(3,190,946)	463,489	40,213,740
Lease assets being amortized				
Buildings	15,477,939	922,348	56,250	16,456,537
Major movable equipment	2,282,810			2,282,810
Total lease assets being amortized	17,760,749	922,348	56,250	18,739,347
Less accumulated amortization				
Buildings	1,076,007	381,531		1,457,538
Major movable equipment	1,394,126	475,801		1,869,927
Total accumulated amortization	2,470,133	857,332	-	3,327,465
Total lease assets being amortized, net	15,290,616	65,016	56,250	15,411,882
Subscription IT assets being amortized	420,903			420,903
Less accumulated amortization	92,860	140,301		233,161
Total subscription IT assets being amortized, net	328,043	(140,301)	-	187,742
Capital assets, net	$ 61,344,463	$ 1,990,908	$ (5,814)	$ 63,329,557

Note G - Capital Assets - Continued

Construction in progress for Labette Health at December 31, 2025, consists primarily of costs incurred for replacement of roofs on various Labette Health's facilities and equipment purchased but not yet placed in service. At December 31, 2025, Labette Health's outstanding commitments for these projects were approximately $940,000.

Capital asset additions, retirements, and balances for the discretely presented component units are as follows:

	2025			
	Beginning balance	Additions	Transfers and retirements	Ending balance
Capital assets not being depreciated				
Land	$ 352,831	$ -	$ -	$ 352,831
Total capital assets not being depreciated	352,831	-	-	352,831
Capital assets being depreciated				
Land improvements	985,822			985,822
Buildings	4,329,411			4,329,411
Fixed equipment	1,045,260			1,045,260
Total capital assets being depreciated	6,360,493	-	-	6,360,493
Less accumulated depreciation				
Land improvements	452,946	53,589		506,535
Buildings	2,128,887	254,123		2,383,010
Fixed equipment	532,030	70,577		602,607
Total accumulated depreciation	3,113,863	378,289	-	3,492,152
Total capital assets being depreciated, net	3,246,630	(378,289)		2,868,341
Capital assets, net	$ 3,599,461	$ (378,289)	$ -	$ 3,221,172

Note G - Capital Assets - Continued

	2024			
	Beginning balance	Additions	Transfers and retirements	Ending balance
Capital assets not being depreciated				
Land	$ 352,831	$ -	$ -	$ 352,831
Total capital assets not being depreciated	352,831	-	-	352,831
Capital assets being depreciated				
Land improvements	985,822			985,822
Buildings	4,329,411			4,329,411
Fixed equipment	1,045,260			1,045,260
Total capital assets being depreciated	6,360,493	-	-	6,360,493
Less accumulated depreciation				
Land improvements	399,356	53,590		452,946
Buildings	1,870,111	258,776		2,128,887
Fixed equipment	461,453	70,577		532,030
Total accumulated depreciation	2,730,920	382,943	-	3,113,863
Total capital assets being depreciated, net	3,629,573	(382,943)	-	3,246,630
Capital assets, net	$ 3,982,404	$ (382,943)	$ -	$ 3,599,461

Note H - Leverage Loan Receivable

Labette Health entered into an agreement on November 13, 2020, to lend $9,959,600 to Labette Health Investment Fund, LLC. Interest of 1 percent accrues on the loan receivable balance from the date of the issuance through maturity, with interest only payments beginning March 1, 2021, and paid quarterly through December 31, 2027. Beginning on March 1, 2028, and continuing until the maturity date of March 31, 2045, the Labette Investment Fund will make quarterly payments of principal and interest sufficient to amortize the note by the maturity date. The note is secured by equity interests of 99.99 percent of CHHS Subsidiary CDE 47, LLC.

Note I - Advances Receivable

Labette Health has determined that recruitment of physicians to serve the residents of Labette County and the retention of key employees is in the best interest of Labette Health, its patients, and the community, and will enable Labette Health to enhance its ability to meet the health care needs of the community's residents. To accomplish this, Labette Health has entered into agreements with certain physicians to provide them with financial assistance as an inducement for them to establish medical practices in Labette Health's service area. In return, the physicians agree to provide professional services for the residents of Parsons and Labette County over periods varying from three to six years. Labette Health has also entered into agreements to retain the services of a key employee and other employees. The financial assistance is

Note I - Advances Receivable - Continued

rendered in the form of contractual liquidated damages clauses which require liquidated damages to be paid to Labette Health if the service obligation is not met. Upon establishment of their practices, or retention period, principal or liquidated damages and the accumulated interest on loans are forgiven ratably over the required service periods. If the physicians do not establish a medical practice, or if they leave the community prior to completion of the service obligation or the key employee does not complete the service obligation, they will be required to repay any unpaid or unforgiven principal and accumulated interest on the loans, or liquidated damages, as applicable.

Labette Health's future exposure to credit loss on these agreements is dependent upon the performance of the physicians and the key employee under these agreements. Outstanding commitments for future advances were approximately $580,000 at December 31, 2025.

Note J - Health Insurance Claims

Labette Health sponsors a self-insured employee health insurance plan. Labette Health has reinsured a portion of its risk for health insurance claims of its employees. The reinsurance arrangement generally covers claims totaling over $200,000 for each covered individual on an annual basis. The reinsurance arrangement also covers aggregate annual claims of the plan in excess of an amount determined in relation to the number of individuals participating in the plan during the year. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. Labette Health has retained an agent to process and settle claims.

The following is a summary of the activity under this arrangement:

	2025	2024
Estimated net health insurance claims payable at beginning of year	$ 290,000	$ 429,623
Provision for employer's share of incurred claims and related expenses for the year, net of any reinsurance proceeds	3,644,469	4,445,859
Participant contributions	1,253,422	1,271,447
Payments made for claims and related expenses	(4,877,634)	(5,856,929)
Estimated net health insurance claims payable at end of year	$ 310,257	$ 290,000

Note K - Line of Credit Payable

Labette Health has a $2,800,000 line of credit with a bank, secured by a certificate of deposit. The line of credit is used to support operations. The unused balance on the line of credit was $1,262,574 at December 31, 2025. Borrowings on the line of credit bear interest at 2.20 percent annually with interest due monthly. Principal is due on demand or at maturity (March 24, 2026). See Note X for renewal.

The summary of activity for the line of credit is as follows:

	2025	2024
Beginning balance at January 1,	$ 1,383,750	$ 1,384,563
Line of credit advances	2,656,059	3,156,063
Principal payments	(2,502,383)	(3,156,876)
Ending balance at December 31,	$ 1,537,426	$ 1,383,750

Note L - Long-Term Debt

Long-term debt obligations of Labette Health are summarized as follows:

	2025	2024
3.80% Labette County, Kansas Hospital Refunding Revenue Bonds, Series 2017; issued on January 26, 2017, in the original amount of $15,000,000; due serially through September 1, 2036, with principal payments beginning on March 1, 2017	$10,005,000	$10,746,000
3.80% Labette County, Kansas Hospital Revenue Bonds, Series 2020; issued on June 2, 2020, in the original amount of $10,000,000; due serially through September 1, 2036, with principal payments beginning on September 1, 2020	8,095,000	8,514,000
2.65% Labette County, Kansas Hospital Refunding and Improvement Revenue Bonds, Series 2021; issued on November 9, 2021, in the original amount of $9,918,000; due serially through September 1, 2041, with principal payments beginning on September 1, 2022	8,287,000	8,698,000
5.00% Promissory bank note in the original amount of $588,804; due through December 11, 2028; monthly principal and interest payments beginning January 11, 2026, collateralized by CT equipment	588,804	
$2,056,548 Construction note payable bank obligation, 5.67% interest rate, monthly interest payments through maturity, principal due on May 26, 2026, collateralized by Independence leasehold improvements	800,000	397,264
5.00% promissory note in the original amount of $157,499; due through May 18, 2026 with monthly principal and interest payments beginning June 18, 2025, collateralized by equipment	66,581	
1.41% Promissory note in the original amount of $9,959,600; due through December 31, 2051; quarterly interest payments beginning March 1, 2021; quarterly principal and interest payments beginning March 1, 2028	9,959,600	9,959,600
1.41% Promissory note in the original amount of $3,620,400; due through December 31, 2051; quarterly interest payments beginning March 1, 2021; quarterly principal and interest payments beginning March 1, 2028	3,620,400	3,620,400
4.00% Mortgage note payable to individual, in the original amount of $200,000; payable in annual installments of $50,000, including interest through February 1, 2026	50,000	100,000
	41,472,385	42,035,264
Less current maturities	2,726,143	1,621,000
Long-term debt obligations, less current maturities	$38,746,242	$40,414,264

Note L - Long-Term Debt - Continued

The following is a summary of changes in long-term debt obligations for Labette Health:

	Notes payable	Hospital revenue bonds	Total long-term obligations
Outstanding at January 1, 2024	$ 13,940,587	$ 29,477,000	$ 43,417,587
Obligations incurred	397,264		397,264
Principal payments	(260,587)	(1,519,000)	(1,779,587)
Outstanding at December 31, 2024	14,077,264	27,958,000	42,035,264
Obligations incurred	2,305,587		2,305,587
Principal payments	(1,297,466)	(1,571,000)	(2,868,466)
Outstanding at December 31, 2025	$ 15,085,385	$ 26,387,000	$ 41,472,385

On January 26, 2017, the County issued $15,000,000 in Hospital Refunding Revenue Bonds, Series 2017 (the 2017 bonds), for the benefit of Labette Health pursuant to a Second Supplemental Bond Trust Indenture dated January 1, 2017. The proceeds of the 2017 bonds were used, together with other available funds of Labette Health, for the purpose of providing funds to (1) advance refund $16,360,000 of the Series A, 2007 bonds, and $2,200,000 of the Series B, 2007 bonds, and (2) pay certain costs related to the issuance of the 2017 bonds.

On June 2, 2020, the County issued Hospital Revenue Bonds, Series 2020, (the Series 2020 bonds) in the principal amount not to exceed $10,000,000 for the benefit of Labette Health pursuant to a Third Supplemental Bond Trust Indenture dated June 1, 2020. The proceeds of the 2020 bonds are to be drawn on as needed after Labette Health expends $6,500,000 of their own funds on renovation and expansion of the current facility and drawn to pay certain costs related to the issuance of the 2020 bonds.

On November 9, 2021, the County issued $9,918,000 in Hospital Refunding and Improvement Revenue Bonds, Series 2021 (the 2021 bonds), for the benefit of Labette Health pursuant to a Fourth Supplemental Bond Trust Indenture dated November 1, 2021. The proceeds of the 2021 bonds were used, together with other available funds to (1) refund $7,730,000 of the Series 2016 bonds, (2) pay certain costs related to the issuance of the 2021 bonds, and (3) pay for renovations and expansion of Labette Health's facilities. The refunding transaction decreased the total amount of future debt service requirements by $2,897,949. This resulted in an economic gain of $1,615,562.

The indenture agreements for the 2017, 2020, and 2021 bonds require Labette Health to transfer to a trustee, on a monthly basis, specified amounts which, when combined with interest earned on the respective funds held by the trustee, will provide sufficient funds to pay principal and interest for the bonds on the appropriate due dates. Such amounts were maintained and are included with assets limited as to use in the financial statements. The obligations of Labette Health under the indenture agreement are secured by a pledge of its unrestricted revenues, subject to the right of Labette Health to dispose of or encumber property as defined and permitted in the indenture agreement. The indenture agreement also includes certain restrictive covenants relating to the disposition of property, incurrence of additional indebtedness, the level of days cash on hand, and the level of fees and rates charged. The covenant in the indenture

Note L - Long-Term Debt - Continued

agreement regarding the level of day's cash on hand requires that those levels equal or exceed 75 days. The covenant in the indenture agreement regarding the level of fees and rates charged requires that fees and rates for services be set at levels sufficient for Labette Health to produce income available for debt service in each fiscal year equal to 125 percent of the debt service requirements during that fiscal year for outstanding debt. That ratio value was 119 percent and 108 percent for the years ended December 31, 2025 and 2024, respectively.

On November 13, 2020, LHEA, executed loan agreements, Note A in the principal amount of $9,959,600 and Note B in the principal amount of $3,620,400 with CHHS Subsidiary CDE 47, LLC. The notes are secured by a leasehold mortgage on certain areas of Labette Health's facilities. LHEA is not permitted to prepay any portion of the principal of the loans until November 13, 2027 (seven-year term). At the end of the seven-year term, a put/call agreement may be exercised, whereby Wells Fargo Community Investment Holdings, LLC, sole-member of Labette Health Investment Fund, LLC a 99.99 percent owner in CCHS Subsidiary CDE 47, LLC, is sold to LHEA. Under the terms of the loan agreements, LHEA has certain compliance requirements, including compliance reporting and maintaining its status as a qualified active low-income community business as defined by the Internal Revenue Code.

Scheduled annual debt service requirements for Labette Health's hospital revenue bonds are as follows:

	Principal	Interest	Total
2026	$ 1,623,000	$ 839,531	$ 2,462,531
2027	1,676,000	785,117	2,461,117
2028	1,733,000	729,491	2,462,491
2029	1,792,000	670,693	2,462,693
2030	1,851,000	610,568	2,461,568
2031 - 2035	10,231,000	2,075,090	12,306,090
2036 - 2040	6,856,000	629,379	7,485,379
2041	625,000	16,563	641,563
	$ 26,387,000	$ 6,356,432	$ 32,743,432

Scheduled payments on Labette Health's notes payable are as follows:

	Principal	Interest	Total
2026	$ 1,103,143	$ 219,645	$ 1,322,788
2027	196,107	214,716	410,823
2028	685,076	194,705	879,781
2029	485,735	182,287	668,022
2030	492,624	175,397	668,021
2031 - 2035	2,569,938	770,169	3,340,107
2036 - 2040	2,757,447	582,660	3,340,107
2041 - 2045	2,958,637	381,470	3,340,107
2046 - 2050	3,174,506	165,601	3,340,107
2051	662,172	5,850	668,022
	$ 15,085,385	$ 2,892,500	$ 17,977,885

Note L - Long-Term Debt - Continued

Long-term debt obligations of the discretely presented component units are summarized as follows:

	2025	2024
2.38% USDA Community Facilities loan, in the original amount of $5,600,000; payable in monthly installments of $19,656, including interest through October 25, 2052	$ 4,674,656	$ 4,797,917
3.25% USDA Community Facilities loan, in the original amount of $400,000; payable in monthly installments of $1,596, including interest through October 25, 2052	342,628	350,505
	5,017,284	5,148,422
Less current maturities	134,358	131,138
	$ 4,882,926	$ 5,017,284

The following is a summary of changes in long-term debt for the discretely presented component units:

Outstanding at January 1, 2024	$ 5,276,070
Principal payments	(127,648)
Outstanding at December 31, 2024	5,148,422
Principal payments	(131,138)
Outstanding at December 31, 2025	$ 5,017,284

Scheduled annual debt service requirements on long-term debt for the discretely presented component units, are as follows:

	Principal	Interest	Total
2026	$ 134,358	$ 120,666	$ 255,024
2027	137,657	117,367	255,024
2028	140,717	114,307	255,024
2029	144,494	110,530	255,024
2030	148,044	106,980	255,024
2031 - 2035	796,317	478,803	1,275,120
2036 - 2040	899,037	376,083	1,275,120
2041 - 2045	1,015,605	259,515	1,275,120
2046 - 2050	1,147,136	127,984	1,275,120
2051 - 2052	453,919	10,638	464,557
	$ 5,017,284	$ 1,822,873	$ 6,840,157

Note M - Leases

Labette Health leases certain equipment and buildings, the terms of which expire in various years through 2067. Payments are based on each specific agreement and the periodic base rents range from $1,495 to $50,000 per month, with certain agreements containing variable lease payments. Variable lease payments pertain to rental escalation clauses based on an index adjustment multiplier equal to the percentage increase in the Gross Domestic Product Implicit Price Deflator published by the U.S. Bureau of Economic Analysis. No variable lease payments were recognized as outflows of resources for the years ended December 31, 2025 and 2024.

The following is a summary of lease liabilities as of December 31:

	2025	2024
Current portion of lease liabilities	$ 276,984	$ 467,414
Noncurrent portion of lease liabilities	14,824,667	15,105,852
Total lease liabilities	$ 15,101,651	$ 15,573,266

The following is a summary of changes in lease liabilities of Labette Health:

	2025	2024
Beginning balance at January 1,	$ 15,573,266	$ 15,838,986
Lease obligations incurred		422,348
Principal payments	(471,615)	(688,068)
Ending balance at December 31,	$ 15,101,651	$ 15,573,266

Scheduled lease payments for Labette Health's lease liabilities are as follows:

	Principal	Interest	Total
2026	$ 276,984	$ 449,774	$ 726,758
2027	285,693	441,065	726,758
2028	227,628	432,923	660,551
2029	222,110	426,303	648,413
2030	228,866	419,547	648,413
2031 - 2035	1,259,492	1,988,780	3,248,272
2036 - 2040	1,400,950	1,786,628	3,187,578
2041 - 2045	1,534,429	1,569,697	3,104,126
2046 - 2050	1,743,220	1,322,726	3,065,946
2051 - 2055	1,951,962	1,048,038	3,000,000
2056 - 2060	2,267,432	732,568	3,000,000
2061 - 2065	2,633,887	366,113	3,000,000
2066 - 2067	1,068,998	31,002	1,100,000
Total minimum lease payments	$ 15,101,651	$ 11,015,164	$ 26,116,815

Note M - Leases - Continued

The discretely presented component units include lease receivables and deferred inflows of resources for the lease of the Foundation's Independence Facility to Labette Health of $14,289,547 and $14,458,109 at December 31, 2025 and 2024, respectively. Income from the lease consisted of the following:

	2025	2024
Rental income	$ 168,562	$ 163,586
Investment income	431,438	436,414
	$ 600,000	$ 600,000

Note N - Subscription IT Liabilities

Labette Health's subscription IT liabilities primarily relate to software subscriptions for its patient accounting and electronic medical records system and supporting modules. Payments are based on each underlying contract and vary between monthly, quarterly, semi-annual, and annual payments. In certain conditions, the vendor is allowed to increase the subscription payment annually. The differences between the original payment schedules and the current payment schedules are considered variable consideration. The variable consideration was not significant for the years ended December 31, 2025 and 2024.

The following is a summary of subscription IT liabilities as of December 31:

	2025	2024
Current portion of subscription IT liabilities	$ 1,114,481	$ 146,714
Noncurrent portion of subscription IT liabilities	2,814,915	17,750
Total subscription IT liabilities	$ 3,929,396	$ 164,464

The following is a summary of changes in subscription IT liabilities of Labette Health:

	2025	2024
Beginning balance at January 1,	$ 164,464	$ 272,491
Subscription IT obligations incurred	4,709,980	
Principal payments	(945,048)	(108,027)
Ending balance at December 31,	$ 3,929,396	$ 164,464

Scheduled subscription IT liability payments are as follows:

	Principal	Interest	Total
2026	$ 1,114,481	$ 172,907	$ 1,287,388
2027	1,115,168	117,827	1,232,995
2028	1,132,498	61,465	1,193,963
2029	567,249	9,351	576,600
Total minimum subscription IT liability payments	$ 3,929,396	$ 361,550	$ 4,290,946

Note O - Interest Expense

Total interest costs of Labette Health are summarized as follows:

	2025	2024
Total interest incurred	$ 1,834,845	$ 1,669,690
Amortization of deferred outflows on advance refunding	24,843	30,394
Interest expense	$ 1,859,688	$ 1,700,084

Total interest expense for the discretely presented component units for December 31, 2025 and 2024, was $123,886 and $127,376, respectively.

Note P - Compensated Absences

The following is a summary of compensated absences:

	2025	2024
Current portion of compensated absences	$ 1,937,016	$ 1,988,926
Noncurrent portion of compensated absences	684,000	611,000
	$ 2,621,016	$ 2,599,926

The following is a summary of changes in compensated absences:

	2025	2024
Beginning balance at January 1,	$ 2,599,926	$ 2,430,587
Net change	21,090	169,339
Ending balance at December 31,	$ 2,621,016	$ 2,599,926

Note Q - Defined Contribution Pension Plans

Labette Health sponsors a defined contribution pension plan that provides pension benefits for substantially all of its full-time employees. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. The plan is administered by a third-party insurance company and can be amended by the Board of Trustees. The provisions of the plan are as follows.

Employees become eligible for employer contributions after completing one year of service. Labette Health contributes a percentage of gross compensation based on the eligible employee's years of service as follows: 2 percent if more than one year but less than five years of service; 4 percent if 5 or more years of service but less than 15; and 6 percent if 15 or more years of service. Labette Health may also make a discretionary matching contribution of participant contributions to the plan. The contribution cannot exceed a percentage of gross compensation based on the eligible employee's years of service as follows: 1 percent if more than 5 years of service but less than 10 years of service, and 2 percent if more than 10 years of service. The employees are not required to make contributions to the plan but may elect to contribute from 1 percent to 20 percent of the participant's compensation subject to maximum limits as defined by the Internal Revenue Service. Labette Health's contributions for each employee are fully vested after 10 years of continuous service.

Note Q - Defined Contribution Pension Plans - Continued

Labette Health and covered employees made contributions to the plan as follows for the years ended December 31:

	2025	2024
Employer contributions	$ 540,000	$ 539,179
Employee contributions	601,121	539,276
	$ 1,141,121	$ 1,078,455

Labette Health has entered into deferred compensation agreements with certain employees. These agreements are eligible deferred compensation plans under Section 401(a) or 457(b) of the Internal Revenue Code. The plans can be amended by mutual consent of Labette Health and the plans' participants. All assets of the plans are held by a third-party investment company for the sole benefit of the employee and the employee's designated beneficiary. The plans generally provide for employer contributions based on the employees' years of service. The employees are not required to make contributions to the plans but may elect to contribute a percentage of compensation subject to maximum limits as defined by the Internal Revenue Service. Labette Health's contributions become fully vested after periods defined in each plan. Labette Health and covered employees made contributions to these plans as follows for the years ended December 31:

	2025	2024
Employer contributions	$ 659,305	$ 624,686
Employee contributions	329,149	330,177
	$ 988,454	$ 954,863

Note R - Concentration of Credit Risk

Labette Health grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of patient accounts receivable from patients and third-party payors at December 31 is as follows:

	2025	2024
Medicare	18.9 %	19.5 %
Medicaid	7.8	12.7
Blue Cross	10.4	9.7
Other insurers	32.9	33.9
Patients	30.0	24.2
	100.0 %	100.0 %

Note S - Condensed Financial Information

The following is condensed combined financial data for Labette Health and its blended component units LHEA and SEKRH as of December 31, 2025 and 2024, and for the years then ended:

	December 31, 2025				
	Labette Health	LHEA	SEKRH	Eliminations	Total
Current assets	$ 46,308,564	$ 395,776	$ 12,637	$ (986,190)	$ 45,730,787
Noncurrent cash and investments	13,310,888	270,300			13,581,188
Capital assets, net	71,043,086	18,453,720	569,334	(20,962,032)	69,104,108
Leverage loan receivable	9,959,600				9,959,600
Noncurrent portion of lease receivables	274,184	23,495,884		(23,495,884)	274,184
Other assets	628,569				628,569
Total assets	141,524,891	42,615,680	581,971	(45,444,106)	139,278,436
Deferred outflows of resources	146,728				146,728
Total assets and deferred outflows of resources	$ 141,671,619	$ 42,615,680	$ 581,971	$ (45,444,106)	$ 139,425,164
Current liabilities	$ 19,118,773	$ -	$ 640,629	$ (670,218)	$ 19,089,184
Long-term debt, noncurrent portion	25,166,242	13,580,000			38,746,242
Lease liabilities, noncurrent portion	38,636,523			(23,811,856)	14,824,667
Subscription IT liabilities, noncurrent portion	2,814,915				2,814,915
Accrued compensated absences, noncurrent portion	684,000				684,000
Total liabilities	86,420,453	13,580,000	640,629	(24,482,074)	76,159,008
Deferred inflows of resources	274,184	23,811,856		(23,811,856)	274,184
Total net position	54,976,982	5,223,824	(58,658)	2,849,824	62,991,972
Total liabilities, deferred inflows of resources and net position	$ 141,671,619	$ 42,615,680	$ 581,971	$ (45,444,106)	$ 139,425,164

Note S - Condensed Financial Information - Continued

	December 31, 2024				
	Labette Health	LHEA	SEKRH	Eliminations	Total
Current assets	$ 42,038,810	$ 367,664	$ 12,637	$ (900,541)	$ 41,518,570
Noncurrent cash and investments	15,879,267	270,300			16,149,567
Capital assets, net	65,026,604	19,475,425	569,334	(21,741,806)	63,329,557
Leverage loan receivable	9,959,600				9,959,600
Noncurrent portion of lease receivables		23,811,856		(23,811,856)	
Other assets	799,936				799,936
Total assets	133,704,217	43,925,245	581,971	(46,454,203)	131,757,230
Deferred outflows of resources	171,571				171,571
Total assets and deferred outflows of resources	$ 133,875,788	$ 43,925,245	$ 581,971	$ (46,454,203)	$ 131,928,801
Current liabilities	$ 16,578,311	$ -	$ 583,087	$ (613,634)	$ 16,547,764
Long-term debt, noncurrent portion	26,784,264	13,580,000	50,000		40,414,264
Lease liabilities, noncurrent portion	39,204,615			(24,098,763)	15,105,852
Subscription IT liabilities, noncurrent portion	17,750				17,750
Accrued compensated absences, noncurrent portion	611,000				611,000
Total liabilities	83,195,940	13,580,000	633,087	(24,712,397)	72,696,630
Deferred inflows of resources		24,098,763		(24,098,763)	
Total net position	50,679,848	6,246,482	(51,116)	2,356,957	59,232,171
Total liabilities, deferred inflows of resources, and net position	$ 133,875,788	$ 43,925,245	$ 581,971	$ (46,454,203)	$ 131,928,801

Note S - Condensed Financial Information - Continued

	December 31, 2025				
	Labette Health	LHEA	SEKRH	Eliminations	Total
Net patient service revenue	$ 97,642,737	$ -	$ -	$ -	$ 97,642,737
Other operating revenues	7,056,375	286,907		(286,907)	7,056,375
Total operating revenues	104,699,112	286,907	-	(286,907)	104,699,112
Salaries and wages	48,154,283				48,154,283
Employee benefits	8,544,309				8,544,309
Supplies and other expenses	42,834,443	44,447	3,542		42,882,432
Depreciation and amortization	6,093,422	1,021,705		(779,774)	6,335,353
Total operating expenses	105,626,457	1,066,152	3,542	(779,774)	105,916,377
Operating income (loss)	(927,345)	(779,245)	(3,542)	492,867	(1,217,265)
Nonoperating revenues (expenses)	536,452	527,198	(4,000)		1,059,650
Transfers between Hospital and component unit	770,611	(770,611)			
Capital grant, contributions, and sales tax revenue for capital purchases	3,917,416				3,917,416
Change in net position	4,297,134	(1,022,658)	(7,542)	492,867	3,759,801
Net position beginning of year	50,679,848	6,246,482	(51,116)	2,356,957	59,232,171
Net position end of year	$ 54,976,982	$ 5,223,824	$ (58,658)	$ 2,849,824	$ 62,991,972

Note S - Condensed Financial Information - Continued

	December 31, 2024				
	Labette Health	LHEA	SEKRH	Eliminations	Total
Net patient service revenue	$ 88,636,047	$ -	$ -	$ -	$ 88,636,047
Other operating revenues	8,177,575	259,084		(259,084)	8,177,575
Total operating revenues	96,813,622	259,084	-	(259,084)	96,813,622
Salaries and wages	45,782,197				45,782,197
Employee benefits	9,064,867				9,064,867
Supplies and other expenses	40,572,897	43,700	10,000		40,626,597
Depreciation and amortization	4,604,522	1,019,873		(781,910)	4,842,485
Total operating expenses	100,024,483	1,063,573	10,000	(781,910)	100,316,146
Operating loss	(3,210,861)	(804,489)	(10,000)	522,826	(3,502,524)
Nonoperating revenues (expenses)	1,038,432	535,372	(6,000)		1,567,804
Transfers between Hospital and component unit	11,424	(11,424)			
Capital grant, contributions, and sales tax revenue for capital purchases	4,675,627				4,675,627
Change in net position	2,514,622	(280,541)	(16,000)	522,826	2,740,907
Net position beginning of year	48,165,226	6,527,023	(35,116)	1,834,131	56,491,264
Net position end of year	$ 50,679,848	$ 6,246,482	$ (51,116)	$ 2,356,957	$ 59,232,171

Note S - Condensed Financial Information - Continued

	December 31, 2025				
	Labette Health	LHEA	SEKRH	Eliminations	Total
Cash flows from operating activities					
Receipts from and on behalf of patients	$ 89,266,416	$ -	$ -	$ -	$ 89,266,416
Payments to or on behalf of employees	(56,368,320)				(56,368,320)
Payments for supplies and services	(42,899,008)	(44,447)	4,000	50,000	(42,889,455)
Other receipts and payments	7,429,433	1,006,662			8,436,095
Net cash provided (used) by operating activities	(2,571,479)	962,215	4,000	50,000	(1,555,264)
Cash flows from noncapital and related financing activities					
Transfer	1,776,315	(1,776,315)			
Proceeds from line of credit	2,656,059				2,656,059
Principal payments on line of credit	(2,502,383)				(2,502,383)
Interest paid	(53,447)				(53,447)
Other noncapital financing activities	2,033,622	286,907		(286,907)	2,033,622
Net cash provided (used) by capital and related financing activities	3,910,166	(1,489,408)	-	(286,907)	2,133,851
Cash flows from capital and related financing activities					
Acquisition of capital assets	(8,299,606)				(8,299,606)
Proceeds from bonds/notes payable	2,305,587				2,305,587
Principal payments on long-term debt, lease and SBITA liabilities	(4,522,036)			236,907	(4,285,129)
Interest paid	(2,305,594)	(191,607)	(4,000)	718,797	(1,782,404)
Other capital financing activities	4,812,174				4,812,174
Net cash used by capital and related financing activities	(8,009,475)	(191,607)	(4,000)	955,704	(7,249,378)
Cash flows from investing activities					
Changes in					
Assets held by trustee	60,591				60,591
Investment income received	746,687	718,805		(718,797)	746,695
Net cash provided by investing activities	807,278	718,805	-	(718,797)	807,286
Net change in cash and cash equivalents	(5,863,510)	5			(5,863,505)
Cash and cash equivalents at beginning of year	37,866,791	270,510	12,637		38,149,938
Cash and cash equivalents at end of year	$ 32,003,281	$ 270,515	$ 12,637	$ -	$ 32,286,433
Reconciliation of cash and cash equivalents					
Cash and cash equivalents	$ 18,738,357	$ 215	$ 12,637	$ -	$ 18,751,209
Cash included in assets limited as to use					
Internally designated for capital assets	11,331,019				11,331,019
By County for capital assets	1,933,905				1,933,905
Under indenture of loan agreement		270,300			270,300
Total cash and cash equivalents	$ 32,003,281	$ 270,515	$ 12,637	$ -	$ 32,286,433

Note S - Condensed Financial Information - Continued

	December 31, 2024				
	Labette Health	LHEA	SEKRH	Eliminations	Total
Cash flows from operating activities					
Receipts from and on behalf of patients	$ 86,472,865	$ -		$ -	$ 86,472,865
Payments to or on behalf of employees	(54,443,235)				(54,443,235)
Payments for supplies and services	(40,370,584)	(43,700)	13,977	40,000	(40,360,307)
Other receipts and payments	7,953,356	246,731			8,200,087
Net cash provided (used) by operating activities	(387,598)	203,031	13,977	40,000	(130,590)
Cash flows from noncapital and related financing activities					
Transfer	997,482	(997,482)			
Proceeds from line of credit	3,156,063				3,156,063
Principal payments on line of credit	(3,156,876)				(3,156,876)
Interest paid	(42,308)				(42,308)
Other noncapital financing activities	2,307,743	259,085		(259,085)	2,307,743
Net cash provided (used) by capital and related financing activities	3,262,104	(738,397)	-	(259,085)	2,264,622
Cash flows from capital and related financing activities					
Acquisition of capital assets	(5,564,685)			10,000	(5,554,685)
Proceeds from bonds/notes payable	397,264				397,264
Principal payments on long-term debt, lease and SBITA liabilities	(2,784,767)			209,085	(2,575,682)
Interest paid	(2,149,657)	(191,607)	(6,000)	726,973	(1,620,291)
Other capital financing activities	3,789,131				3,789,131
Net cash used by capital and related financing activities	(6,312,714)	(191,607)	(6,000)	946,058	(5,564,263)
Cash flows from investing activities					
Changes in					
Assets held by trustee	(7,702)				(7,702)
Investment income received	1,007,203	726,979		(726,973)	1,007,209
Net cash provided by investing activities	999,501	726,979	-	(726,973)	999,507
Net change in cash and cash equivalents	(2,438,707)	6	7,977		(2,430,724)
Cash and cash equivalents at beginning of year	40,305,498	270,504	4,660		40,580,662
Cash and cash equivalents at end of year	$ 37,866,791	$ 270,510	$ 12,637	$ -	$ 38,149,938
Reconciliation of cash and cash equivalents					
Cash and cash equivalents	$ 22,273,103	$ 210	$ 12,637	$ -	$ 22,285,950
Cash included in assets limited as to use					
Internally designated for capital assets	13,902,216				13,902,216
By County for capital assets	1,691,472				1,691,472
By contributors for capital assets		270,300			270,300
Total cash and cash equivalents	$ 37,866,791	$ 270,510	$ 12,637	$ -	$ 38,149,938

Note S - Condensed Financial Information - Continued

The following is condensed financial data for the discretely presented component units of Labette Health as of December 31, 2025 and 2024, and for the years then ended. The Foundation is a major component unit due to the considerable financial benefit it provides to Labette Health.

	2025		2024	
	Major component unit	Nonmajor component unit	Major component unit	Nonmajor component units
Cash and cash equivalents	$ 283,900	$ 2,671	$ 205,910	$ 2,671
Investments	879,602		435,322	
Other receivables	3,096		1,581	
Due from Labette Health		41,856		
Lease receivable	173,689		168,562	
Pledges receivable			4,993	
Total current assets	1,340,287	44,527	816,368	2,671
Assets limited as to use	4,744,866		4,416,625	
Capital assets, net	3,074,523	146,649	3,434,804	164,657
Lease receivable less current portion	14,115,858		14,289,547	
Other assets	4,372		160,730	
Total assets	$ 23,279,906	$ 191,176	$ 23,118,074	$ 167,328
Current portion of long-term obligations	$ 134,358	$ -	$ 131,138	$ -
Due to Labette Health	3,750			1,816
Total current liabilities	138,108	-	131,138	1,816
Long-term obligations, less current maturities	4,882,926		5,017,284	
Total liabilities	5,021,034	-	5,148,422	1,816
Deferred inflows of resources	14,289,547	-	14,458,109	-
Net position				
Net investment in capital assets	(1,942,761)	146,649	(1,713,618)	162,841
Restricted				
For debt service	212,376		185,385	
Expendable for specific Labette Health operating activities	4,233,790		3,932,540	
Unrestricted	1,465,920	44,527	1,107,236	2,671
Total net position	3,969,325	191,176	3,511,543	165,512
Total liabilities, deferred inflows of resources, and net position	$ 23,279,906	$ 191,176	$ 23,118,074	$ 167,328

Note S - Condensed Financial Information - Continued

	2025		2024	
	Major component unit	Nonmajor component unit	Major component unit	Nonmajor component units
Rental revenue from Labette Health	$ 168,562	$ 44,567	$ 163,586	$ 44,566
Other operating revenues	588,581		469,698	
Total operating revenues	757,143	44,567	633,284	44,566
Supplies and other expenses	406,680	895	2,240,046	80
Depreciation and amortization	360,281	18,008	364,793	18,150
Total operating expenses	766,961	18,903	2,604,839	18,230
Operating income (loss)	(9,818)	25,664	(1,971,555)	26,336
Nonoperating revenues (expenses)	467,600		471,007	
Change in net position	457,782	25,664	(1,500,548)	26,336
Net position beginning of year	3,511,543	165,512	5,012,091	139,176
Net position end of year	$ 3,969,325	$ 191,176	$ 3,511,543	$ 165,512

Note S - Condensed Financial Information - Continued

	2025		2024	
	Major component unit	Nonmajor component unit	Major component unit	Nonmajor component units
Cash flows from operating activities				
Payments for supplies and services	$ (402,930)	$ (44,567)	$ (2,240,121)	$ (44,566)
Other receipts and payments	1,015,745	44,567	981,076	44,566
Net cash provided (used) by operating activities	612,815	-	(1,259,045)	-
Cash flows from capital and related financing activities				
Repayments of long-term obligations	(131,138)		(127,649)	
Interest paid	(123,886)		(127,376)	
Net cash used by capital and related financing activities	(255,024)	-	(255,025)	-
Cash flows from investing activities				
Changes in investments	(416,929)		(24,369)	
Investment income received	718,978		562,010	
Net cash provided by investing activities	302,049	-	537,641	-
Net change in cash and cash equivalents	659,840	-	(976,429)	-
Cash and cash equivalents at beginning of year	4,363,842	2,671	5,340,271	2,671
Cash and cash equivalents at end of year	$ 5,023,682	$ 2,671	$ 4,363,842	$ 2,671
Reconciliation of cash and cash equivalents				
Cash and cash equivalents	$ 283,900	$ 2,671	$ 205,910	$ 2,671
Cash included in assets limited as to use				
Internally designated for capital assets	298,700		298,700	
Under loan agreement	212,376		185,385	
For specific operating activities	4,228,705		3,673,846	
Total cash and cash equivalents	$ 5,023,681	$ 2,671	$ 4,363,841	$ 2,671

The condensed combined financial data for Labette Health and its blended component units LHEA and SEKRH for the year ended December 31, 2024, on pages 37, 39, and 41 has been adjusted to reflect changes to the lease agreement between Labette Health and LHEA. The blended amounts are unchanged as a result of this change.

Note T - Risk Management

For the years ended December 31, 2025 and 2024, Labette Health was insured for hospital professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of $500,000 per occurrence up to an annual aggregate of $1,500,000 for all claims made during the policy year. Labette Health is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to $500,000 pursuant to any one judgment or settlement against Labette Health for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of $1,500,000. The policy provided by the independent insurance carrier provides for umbrella liability in excess of the underlying limits set forth above in the amount of $1,000,000 per occurrence with an aggregate amount in any policy period of $3,000,000. All coverage is on a claims-made basis. The above policies were renewed on January 1, 2026, for the policy period from January 1, 2026 to January 1, 2027.

In addition to the risks disclosed elsewhere in these financial statements and notes thereto, Labette Health is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors or omissions; injuries to employees; and natural disasters. Labette Health purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

Note U - Commitments and Contingencies

Labette Health purchases professional and general liability insurance to cover medical malpractice and other liability claims (Note T). There are known claims and incidents that have been asserted. These claims have been referred to Labette Health's insurance carriers and are in various stages of processing. No accrual for loss contingencies related to these matters have been made in the financial statements, as the amount of ultimate settlement, if any, cannot be reasonably estimated.

Note V - Related-Party Transactions

Labette Health received $357,886 and $2,192,430 from the Foundation during 2025 and 2024, respectively. Labette Health incurred $178,737 and $105,436 in salary, employee benefits, and professional fees on behalf of the Foundation during 2025 and 2024, respectively. Labette Health also incurred other expenses of $31,189 and $67,163 for the years ended December 31, 2025 and 2024, respectively, on behalf of the Foundation. Labette Health paid rent to the Foundation totaling $600,000 during 2025 and 2024.

Labette Health paid rent to LHRP totaling $44,567 during 2025 and 2024.

A member of Labette Health's board of trustees is an executive officer of a local bank. At December 31, 2025, Labette Health had $2,758,596 of deposits with this bank and an outstanding note payable of $588,804.

A member of both LHEA and SEKRH's board of directors is the president of a local bank. At December 31, 2025, Labette Health had $12,430,633 of deposits with this bank in addition to an outstanding note payable of $800,000.

A member of SEKRH's board of directors is an executive officer of a local bank. At December 31, 2025, Labette Health had $5,630,518 of deposits with this bank in addition to a $2,800,000 line of credit with an outstanding balance of $1,537,426 and a lease obligation with an outstanding balance of $115,489.

Note W - County Tax Proceeds

On June 26, 2001, voters of the County approved a .25 percent health care retailers' sales tax to be used as a source of funding for the provision of emergency medical services. The County has agreed to pay Labette Health an amount equal to the lesser of 100 percent of the sales tax or 95 percent of Labette Health's direct loss attributable to the provision of ambulance services. Of the sales tax, 100 percent exceeded 95 percent of Labette Health's direct loss attributable to the provision of ambulance services by $534,354 during 2025 and by $380,412 during 2024. The County has restricted these amounts to use for future capital acquisitions for ambulance services.

Note X - Subsequent Events

On February 19, 2026, SEKRH purchased a clinic building in Coffeyville, Kansas for approximately $226,000.

On March 24, 2026, Labette Health renewed its $2,800,000 line of credit at 2.20 percent maturing on March 24, 2027.

On May 26, 2026, Labette Health entered into a promissory note refinancing the remaining balance of its construction note payable. The note is for $700,000 with an interest rate of 5.3 percent maturing on May 26, 2033. The note calls for monthly interest payments and yearly principal payments of $100,000.

On August 26, 2026, Labette Health entered into a construction project promissory note for advances up to a maximum principal balance of $2,000,000 to fund building construction at the Pittsburg clinic location. The note bears interest at 5.25 percent and matures on February 21, 2028. Principal and interest payments will be paid periodically until paid in full at maturity.

Supplementary Information

Labette County Medical Center
d/b/a Labette Health
Schedule of Expenditures of Federal Awards
December 31, 2025

Federal grantor/pass-through grantor/program title	Assistance listing number	Pass-through grantor's number	Passed through to subrecipients	Total federal expenditures
United States Department of Agriculture				
Community Facilities Loans and Grants	10.766	N/A	$ -	$ 198,849
Summer Food Service Program for Children	10.559	N/A		26,129
Total United States Department of Agriculture			-	224,978
United States Department of Treasury				
Passed through from Kansas Department of Health and Environment				
COVID-19 Coronavirus State and Local Fiscal Recovery Funds	21.027	N/A	-	38,125
United States Department of Health and Human Services				
Passed through Healthworks KHA Foundation, Inc.				
Small Hospital Improvement Program	93.301	N/A	-	10,800
Congressional Directives	93.493	N/A	-	3,149,149
Total United States Department of Health and Human Services			-	3,159,949
United States Department of Homeland Security				
Passed through Kansas Information Security Office				
State and Local Cybersecurity Grant Program	97.137	N/A	-	28,232
Total federal awards			$ -	$ 3,451,284

Labette County Medical Center
d/b/a Labette Health
Notes to the Schedule of Expenditures of Federal Awards
December 31, 2025

Note 1 - Basis of Presentation

The Accompanying Schedule of Expenditures of Federal Awards (the Schedule) includes the federal grant award activity of Labette County Medical Center d/b/a Labette Health under programs of the federal government for the year ended December 31, 2025. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of Labette Health, it is not intended to and does not present the financial position, changes in net position, or cash flows of Labette Health.

The accompanying Schedule does not include the federal grant activity of Labette Health Foundation, Inc. (the Foundation). Those awards are reported on the Schedule of Expenditures of Federal Awards of the Foundation.

Note 2 - Significant Accounting Policies

Expenditures on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowed or are limited as to reimbursement. Pass-through entity identifying numbers are presented where available.

Note 3 - Indirect Cost Rate

Labette Health has elected not to use the de minimis indirect cost rate (10 percent or 15 percent as applicable based on grant) allowed under Uniform Guidance. Labette Health's federal expenditures do not include indirect administrative expenses.

Note 4 - Congressional Directives

Total expenditures as reported on the Schedule under the United States Department of Human Services Congressional Directives include expenditures under the grant for the years ending December 31, 2022, 2023, and 2024, due to changes in the cost share made during 2025, resulting in an overall increase in the federal share of grant expenditures. A reconciliation of the Schedule's expenditures to the financial statements is as follows:

Expenditures included in 2025 financial statements	$ 2,878,059
Decrease for cost share change impacting expenditures reported in 2022 financial statements	(15,455)
Decrease for cost share change impacting expenditures reported in 2023 financial statements	(1,046)
Increase for cost share change impacting expenditures reported in 2024 financial statements	287,591
Expenditures included in Schedule	$ 3,149,149

Wendling Noe Nelson & Johnson LLC

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

Board of Trustees
Labette County Labette Health

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities of Labette County Medical Center (Labette Health), as of and for the year ended December 31, 2025, and the related notes to the financial statements, which collectively comprise Labette Health's basic financial statements, and have issued our report thereon dated August 26, 2026.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Labette Health's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Labette Health's internal control. Accordingly, we do not express an opinion on the effectiveness of Labette Health's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements, on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2025-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether Labette Health's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

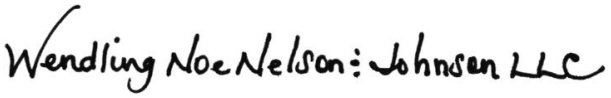
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Labette Health's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on Labette Health's response to the findings identified in our audit and described in the accompanying schedule of findings and questioned costs. Labette Health's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Labette Health's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Labette Health's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Topeka, Kansas
August 26, 2026

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Independent Auditor's Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance

Board of Trustees
Labette County Medical Center

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Labette County Medical Center's (Labette Health) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on each of Labette Health's major federal programs for the year ended December 31, 2025. Labette Health's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, Labette Health complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2025.

Basis for Opinion on Each Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of Labette Health and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of Labette Health's compliance with the compliance requirements referred to above.

Other Matters - Federal Expenditures Not Included in the Compliance Audit

Labette Health's basic financial statements include the operations of the Labette Health Foundation, Inc. (the Foundation), a discretely presented component unit, which expended $5,148,422 in federal awards which is not included in Labette Health's schedule of expenditures of federal awards during the year ended December 31, 2025. Our audit, described in the Opinion on Each Major Federal Program section, did not include the operations of the Foundation because a separate compliance audit in accordance with Uniform Guidance was issued for the Foundation.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the Labette Health's federal programs.

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Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on Labette Health's compliance based on our audit. 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 generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about Labette Health's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards* and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, 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 Labette Health's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of Labette Health's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of Labette Health's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the Auditor's Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Wendling Noe Nelson : Johnson LLC

Topeka, Kansas
August 26, 2026

Labette County Medical Center
d/b/a Labette Health
Schedule of Findings and Questioned Costs
Year ended December 31, 2025

Section I - Summary of Auditors' Results

Financial statements		
Type of opinion expressed in the auditor's report issued		Unmodified
Internal control over financial reporting		
• Material weakness(es) identified?	X Yes	___ No
• Significant deficiencies identified that are not considered to be material weakness(es)?	___ Yes	X None reported
Noncompliance material to financial statements noted	___ Yes	X No
Federal awards		
Internal control over major programs		
• Material weakness(es) identified?	___ Yes	X No
• Significant deficiencies identified that are not considered to be material weakness(es)?	___ Yes	X None reported
Type of auditor's report issued on compliance for major programs		Unmodified
Any audit findings that are required to be reported in accordance with 2 CFR 200.516(a)	___ Yes	X No

Identification of major programs

Assistance listing number	Name of Program
93.493	Congressional Directives

Dollar threshold used to distinguish between type A and type B programs	$1,000,000
Entity qualified as low-risk auditee	___ Yes X No

Section II - Financial Statement Findings

2025-001 Revenue Recognition

Identification: Material weakness in internal control over financial reporting.

Criteria: Under generally accepted accounting principles, patient accounts receivable and patient revenue are recorded in the period earned and reduced to net realizable value.

Condition: Accounts receivable and patient revenue were materially misstated at December 31, 2025.

Cause: Labette Health has procedures in place to estimate the allowance for contractual adjustments and uncollectible accounts to recognize accounts receivable and revenue at net realizable value. However, a change in their write-off methodology coupled with a computer system conversion resulted in the allowances being understated at year end.

Effect: A material audit adjusting journal entry was posted to decrease patient accounts receivable and net patient service revenue by $3,800,000. There is a reasonable possibility that future material misstatements related to revenue recognition will not be prevented, detected, and corrected on a timely basis.

Repeat Finding: No

Recommendations: We recommend that management review the financial reporting process for recognizing revenue and update the methodology as needed.

View of Responsible Officials: Management agrees with the need to record a material adjustment to our 2025 financial statements related to the valuation of our accounts receivable. In the first year on a new Electronic Medical Record, the data available to us at year end to formulate an accurate estimate was limited by the 10 months of data available in the system. Management does not believe that there is any issue with its processes or methodology surrounding this estimate and, therefore, does not deem it necessary to make significant changes. Management will monitor these estimates on a monthly basis as additional data continues to become available to ensure the accuracy of its estimates.

Section III - Federal Award Findings and Questioned Costs

None