Fredonia Regional Hospital
A Component Unit of the City of Fredonia, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2025 and 2024

Fredonia Regional Hospital
A Component Unit of the City of Fredonia, Kansas
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December 31, 2025 and 2024

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Independent Auditor's Report

Board of Trustees
Fredonia Regional Hospital
Fredonia, Kansas

Opinion

We have audited the financial statements of Fredonia Regional Hospital, a component unit of the City of Fredonia, Kansas, as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise Fredonia Regional Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Fredonia Regional Hospital as of December 31, 2025 and 2024, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and The Kansas Municipal Audit and Accounting Guide (KMAAG). 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 Fredonia Regional Hospital and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, 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 Fredonia Regional Hospital's ability to continue as a going concern for 12 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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, 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 Fredonia Regional Hospital'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 Fredonia Regional Hospital'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

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

Forvis Mazars, LLP

Wichita, Kansas
May 29, 2026

Fredonia Regional Hospital
A Component Unit of the City of Fredonia, Kansas
Balance Sheets
December 31, 2025 and 2024

	2025	2024
Assets and Deferred Outflows of Resources		
Current Assets		
Cash	$ 459,505	$ 572,775
Certificates of deposit	747,526	1,445,564
Held by trustee for debt service	236,007	239,193
Patient accounts receivable, net of allowance 2025 - $657,140; 2024 - $804,516	1,499,847	2,027,741
Estimated amounts due from third-party payers	655,046	51,667
Other receivables	82,984	183,443
Supplies	254,107	267,979
Grants receivable	3,477	2,461
Prepaid expenses and other	362,738	354,117
Total Current Assets	4,301,237	5,144,940
Noncurrent Cash and Investments		
Designated by Board of Trustees	20,408	27,930
Restricted by donors for capital acquisitions and specific operating activities	3,082	2,578
Held by trustee for debt service	723,993	733,245
Total Noncurrent Cash and Investments	747,483	763,753
Capital Assets, Net	4,172,740	5,011,566
Subscription Assets, Net	-	276,428
Total Assets	9,221,460	11,196,687
Deferred Outflows of Resources		
Unamortized loss on refunding of long-term debt	327,204	378,132
Total Assets and Deferred Outflows of Resources	$ 9,548,664	$ 11,574,819

Fredonia Regional Hospital
A Component Unit of the City of Fredonia, Kansas
Balance Sheets
December 31, 2025 and 2024 **(Continued)**

	2025	2024
Liabilities and Net Position (Deficit)		
Current Liabilities		
Current maturities of long-term debt	$ 469,927	$ 464,926
Current portion of subscription liability	-	293,175
Accounts payable	640,239	578,277
Accrued salaries and wages	222,258	174,602
Accrued vacation benefits	211,149	208,027
Accrued interest payable	76,525	80,125
Estimated amounts due to third-party payers	-	700,000
Total Current Liabilities	1,620,098	2,499,132
Long-term Debt	5,973,223	6,443,149
Total Liabilities	7,593,321	8,942,281
Net Position (Deficit)		
Net deficit in capital assets	(2,270,410)	(1,913,256)
Restricted - expendable for		
Debt service	960,000	972,438
Capital acquisitions and specific operating activities	3,082	2,578
Unrestricted	3,262,671	3,570,778
Total Net Position	1,955,343	2,632,538
Total Liabilities and Net Position	$ 9,548,664	$ 11,574,819

Fredonia Regional Hospital
A Component Unit of the City of Fredonia, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2025 and 2024

	2025	2024
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2025 - $940,664, 2024 - $639,553	$ 13,507,716	$ 13,307,966
Other	1,670,378	994,298
Total Operating Revenues	15,178,094	14,302,264
Operating Expenses		
Salaries and wages	6,937,705	6,686,991
Employee benefits	1,235,181	1,197,146
Supplies and other	7,618,400	6,543,276
Amortization	276,428	414,644
Depreciation	924,015	926,922
Total Operating Expenses	16,991,729	15,768,979
Operating Loss	(1,813,635)	(1,466,715)
Nonoperating Revenues (Expenses)		
Noncapital appropriations – City of Fredonia and Wilson County	1,304,885	1,202,603
Interest income	93,206	99,215
Interest expense	(279,562)	(307,120)
Gain on sale of capital assets	-	18,526
Noncapital grants and gifts	17,911	57,098
Total Nonoperating Revenues	1,136,440	1,070,322
Decrease in Net Position	(677,195)	(396,393)
Net Position, Beginning of Year	2,632,538	3,028,931
Net Position, End of Year	$ 1,955,343	$ 2,632,538

Fredonia Regional Hospital
A Component Unit of the City of Fredonia, Kansas
Statements of Cash Flows
Years Ended December 31, 2025 and 2024

	2025	2024
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	$ 12,832,690	$ 12,845,930
Payments to suppliers and contractors	(7,554,787)	(6,337,331)
Payments to employees	(8,122,108)	(7,836,300)
Other receipts, net	1,670,378	994,298
Net Cash Used in Operating Activities	(1,173,827)	(333,403)
Cash Flows From Noncapital Financing Activities		
Noncapital appropriations - City of Fredonia and Wilson County	1,304,885	1,202,603
Noncapital grants and gifts	16,895	57,107
Net Cash Provided by Noncapital Financing Activities	1,321,780	1,259,710
Cash Flows From Capital and Related Financing Activities		
Principal paid on long-term debt	(464,925)	(454,298)
Interest paid on long-term debt	(209,071)	(234,510)
Proceeds from disposal of capital assets	-	28,500
Principal paid on subscription liability	(293,175)	(425,437)
Interest paid on subscription liability	(19,563)	(19,563)
Purchases of capital assets	(85,189)	(311,171)
Net Cash Used in Capital and Related Financing Activities	(1,071,923)	(1,416,479)
Cash Flows From Investing Activities		
Interest income	93,206	99,215
Purchases of investments	(1,707,526)	(2,418,002)
Proceeds from disposition of investments	2,418,002	2,386,390
Net Cash Provided by Investing Activities	803,682	67,603
Decrease in Cash	(120,288)	(422,569)
Cash, Beginning of Year	603,283	1,025,852
Cash, End of Year	$ 482,995	$ 603,283

Fredonia Regional Hospital
A Component Unit of the City of Fredonia, Kansas
Statements of Cash Flows
Years Ended December 31, 2025 and 2024 **(Continued)**

	2025	2024
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	$ 459,505	$ 572,775
Cash designated by Board of Trustees	20,408	27,930
Cash restricted by donors	3,082	2,578
	$ 482,995	$ 603,283
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (1,813,635)	$ (1,466,715)
Depreciation	924,015	926,922
Amortization	276,428	414,644
Provision for uncollectible accounts	940,664	639,553
Changes in operating assets and liabilities		
Patient accounts receivable	(412,770)	(1,005,738)
Estimated amounts due from and to third-party payers	(1,303,379)	87,592
Other accounts receivable	100,459	(183,443)
Prepaid expenses and other	5,251	(5,184)
Accounts payable	61,962	214,214
Accrued expenses	47,178	44,752
Net Cash Used in Operating Activities	$ (1,173,827)	$ (333,403)
Noncash Investing, Capital and Financial Activities		
Amortization of loss on refunding	$ 50,928	$ 53,047
Capital asset cost deletions	$ 6,797	$ 204,817
Capital asset accumulated depreciation deletions	$ 6,797	$ 194,843

Note 1. Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Fredonia Regional Hospital (Hospital) is a municipal hospital located in Fredonia, Kansas. The Hospital is a component unit of the City of Fredonia, Kansas (City). The Hospital primarily earns revenues by providing inpatient, outpatient, emergency care, physician services and rural health clinic services. The Hospital is licensed as a critical access hospital (CAH).

Basis of Accounting and Presentation

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

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources 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 those estimates.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. There were no cash equivalents for the years ended December 31, 2025 and 2024.

Investments

Investments in U.S. Treasury, agency and instrumentality obligations (money market investments) with a remaining maturity of one year or less at time of acquisition are carried at fair value. Nonnegotiable certificates of deposit are carried at amortized cost.

Patient Accounts Receivable

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

Supplies

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

Capital Assets

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

Land improvements	10 – 20 years
Buildings and leasehold improvements	10 – 40 years
Fixed equipment	5 – 20 years
Major moveable equipment	3 – 10 years

Subscription Assets

Subscription assets are initially recorded at the initial measurement of the subscription liability, plus subscription payments made at, and certain prepayments made 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 assets are amortized on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying IT asset.

Capital and Subscription Asset Impairment

The Hospital evaluates capital and subscription assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital or subscription asset has occurred. If a capital or subscription asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation or amortization is increased by the amount of the impairment loss. No asset impairment was recognized during the years ended December 31, 2025 and 2024.

Deferred Outflows of Resources

The Hospital reports the consumption of net position that is applicable to a future reporting period as deferred outflows of resources in a separate section of its balance sheets.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Risk Management

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

Net Position

Net position of the Hospital is classified in three components on its balance sheets.

- Net deficit in capital assets consists of capital and subscription assets net of accumulated depreciation and amortization and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.

- Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings.

- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

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

Charity Care

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

Noncapital Appropriations – City of Fredonia and Wilson County

The Hospital received approximately 8% in 2025 and 2024 of its financial support from noncapital appropriations from the City of Fredonia's 1% sales tax and Wilson County property tax levy.

Property taxes are assessed on a calendar basis and are received beginning January 1 of each year. Revenue from noncapital appropriations – City of Fredonia and Wilson County is recognized in full in the year in which use is first permitted.

Income Taxes

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

Note 2. Deposits and Investments

Deposits

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

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

At December 31, 2025 and 2024, respectively, $886,730 and $1,669,855 of the Hospital's bank balances of $1,386,730 and $2,169,855 were exposed to custodial credit risk as follows:

	2025	2024
Uninsured and collateral held by pledging financial institutions	$ 886,730	$ 1,669,855

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

All of the Hospital's held by trustee for debt service investments were invested in short-term U.S. treasuries (money market investments) with a remaining maturity of one year or less at the time of acquisition at December 31, 2025 and 2024, and are carried at fair value.

Summary of Carrying Values

The carrying values of deposits and investments are included in the balance sheets as follows:

	2025	2024
Carrying value		
Deposits	$ 1,230,521	$ 2,048,847
Investments	960,000	972,438
	$ 2,190,521	$ 3,021,285

Included in the following balance sheet captions:

	2025	2024
Cash	$ 459,505	$ 572,775
Certificates of deposit	747,526	1,445,564
Held by trustee for debt service - current	236,007	239,193
Designated by Board of Trustees	20,408	27,930
Restricted by donors for capital acquisitions and specific operating activities	3,082	2,578
Held by trustee for debt service	723,993	733,245
	$ 2,190,521	$ 3,021,285

Note 3. Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31 consisted of:

	2025	2024
Medicare	$ 356,523	$ 903,180
Medicaid	70,088	144,176
Blue Cross	165,061	205,353
Commercial	548,465	621,804
Private pay	1,016,850	957,744
	2,156,987	2,832,257
Less allowance for uncollectible accounts	(657,140)	(804,516)
	$ 1,499,847	$ 2,027,741

Note 4. Capital and Subscription Assets

Capital assets activity for the years ended December 31 was:

	2025				
	Beginning Balance	Additions	Deletions	Transfer	Ending Balance
Land	$ 25,474	$ -	$ -	$ -	$ 25,474
Land improvements	984,915	-	-	-	984,915
Buildings	11,899,019	-	-	-	11,899,019
Fixed equipment	1,531,052	-	-	-	1,531,052
Moveable equipment	5,205,130	85,189	(6,797)	-	5,283,522
	19,645,590	85,189	(6,797)	-	19,723,982
Less accumulated depreciation					
Land improvements	(768,240)	(27,011)	-	-	(795,251)
Buildings	(9,115,909)	(278,716)	-	-	(9,394,625)
Fixed equipment	(938,730)	(93,848)	-	-	(1,032,578)
Moveable equipment	(3,811,145)	(524,440)	6,797	-	(4,328,788)
	(14,634,024)	(924,015)	6,797	-	(15,551,242)
Capital assets, net	$ 5,011,566	$ (838,826)	$ -	$ -	$ 4,172,740

	2024				
	Beginning Balance	Additions	Deletions	Transfer	Ending Balance
Land	$ 25,474	$ -	$ -	$ -	$ 25,474
Land improvements	984,915	-	-	-	984,915
Buildings	11,796,314	9,752	-	92,953	11,899,019
Fixed equipment	1,514,918	16,921	(787)	-	1,531,052
Moveable equipment	5,124,662	284,498	(204,030)	-	5,205,130
Construction in progress	92,953	-	-	(92,953)	-
	19,539,236	311,171	(204,817)	-	19,645,590
Less accumulated depreciation					
Land improvements	(739,864)	(28,376)	-	-	(768,240)
Buildings	(8,837,948)	(277,961)	-	-	(9,115,909)
Fixed equipment	(847,185)	(92,332)	787	-	(938,730)
Moveable equipment	(3,476,948)	(528,253)	194,056	-	(3,811,145)
	(13,901,945)	(926,922)	194,843	-	(14,634,024)
Capital assets, net	$ 5,637,291	$ (615,751)	$ (9,974)	$ -	$ 5,011,566

Subscription assets activity for the years ended December 31 was:

	2025				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Subscription IT assets	$ 1,520,360	$ -	$ (1,520,360)	$ -	$ -
Less accumulated amortization Subscription IT assets	(1,243,932)	(276,428)	1,520,360	-	-
Subscription assets, net	$ 276,428	$ (276,428)	$ -	$ -	$ -

	2024				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Subscription IT assets	$ 1,520,360	$ -	$ -	$ -	$ 1,520,360
Less accumulated amortization Subscription IT assets	(829,288)	(414,644)	-	-	(1,243,932)
Subscription assets, net	$ 691,072	$ (414,644)	$ -	$ -	$ 276,428

Note 5. Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31:

	2025					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Series 2021 Refunding Revenue Bonds	$ 6,908,075	$ -	$ 464,925	$ 6,443,150	$ 469,927	$ 5,973,223
Subscription liabilities	293,175	-	293,175	-	-	-
	$ 7,201,250	$ -	$ 758,100	$ 6,443,150	$ 469,927	$ 5,973,223

	2024					
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion	Long-term Portion
Series 2021 Refunding Revenue Bonds	$ 7,362,373	$ -	$ 454,298	$ 6,908,075	$ 464,926	$ 6,443,149
Subscription liabilities	718,612	-	425,437	293,175	293,175	-
	$ 8,080,985	$ -	$ 879,735	$ 7,201,250	$ 758,101	$ 6,443,149

Series 2021 Refunding Revenue Bonds

In April 2021, the Hospital issued $8,590,000 City of Fredonia, Kansas Hospital Refunding Revenue Bonds, Series 2021 (2021 Bonds). The 2021 Bonds are payable in annual installments through August 15, 2036, and bear interest at rates of 1% to 3.5%. The 2021 Bonds are secured by the net revenues of the Hospital.

Upon issuance and delivery of the Series 2021 Bonds, the Hospital defeased its outstanding Series 2016 bonds. Funds were deposited in trust under an escrow agreement sufficient in amount to pay future principal and interest on the defeased bonds. This advance refunding transactions resulted in an extinguishment of debt since the Hospital was legally defeased from its obligation on the Series 2016 bonds at the time of defeasance. The advance refunding of the Series 2016 bonds resulted in an overall future economic benefit for the Hospital. However, an accounting loss of $542,379 on the extinguishment of the long-term debt was recorded in 2021. This loss on refunding is shown as a deferred outflow of resources in the balance sheets and is being amortized using the straight-line method over the life of the Series 2021 Bonds.

The indenture agreements require that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee for debt service and restricted cash and investments – current in the balance sheets. The indenture agreements also require the Hospital to comply with certain restrictive covenants including maintaining a historical debt-service coverage of at least 1.10 or maintaining a minimum days' cash on hand of 75 days, which includes the Fredonia Regional Health Care Foundation, Inc.'s operations and cash. The Hospital is required to meet either a historical debt-service coverage ratio or a days' cash on hand ratio, this requirement was met for the years ended December 31, 2025 and 2024.

Subscription Liabilities

The Hospital had one subscription-based information technology arrangement (SBITAs), the term of which expired in 2025.

Debt Service Requirements

Debt service requirements on long-term debt as of December 31, 2025, are as follows:

Year Ending December 31,	Series 2021 Refunding Revenue Bonds Payable	
	Principal	Interest
2026	$ 469,927	$ 204,068
2027	486,476	193,155
2028	497,407	180,655
2029	513,420	166,885
2030	529,501	152,185
2031 - 2035	2,928,020	425,263
2036	1,018,399	35,700
	$ 6,443,150	$ 1,357,911

Note 6. Professional Liability Claims

The Hospital purchases professional liability insurance under a claims-made policy with a fixed premium which provides $500,000 of coverage for each medical incident and $1,500,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional $500,000 of coverage for each medical incident and $1,500,000 of aggregate coverage for each policy year.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of professional liability claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 7. Net Patient Service Revenue

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

Medicare. The Hospital is recognized as a CAH. Under CAH rules, inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries are paid at one hundred one percent (101%) of cost subject to certain limitations. Inpatient geriatric psych services rendered to Medicare program beneficiaries are paid based on a blend of prospective payment rates and cost subject to certain limitations. The Hospital is reimbursed for most services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor.

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

Approximately 91% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2025 and 2024. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 8. Charity Care

The costs of charity care provided under the Hospital's charity care policy were approximately $28,000 and $3,000 for December 31, 2025 and 2024, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 9. Management/Services Agreement

The Board of Trustees has contracted with Great Plains Health Alliance, Inc. (GPHA) for various services, including management, data processing and accounting services. The terms of the agreements vary from one to seven years and can be canceled with 60 days' notice. The agreements can be renewed after the initial term has expired on a year-to-year basis. Fees incurred for the various services provided by GPHA to the Hospital for the years ended December 31, 2025 and 2024, were $863,256 and $823,932, respectively. Amounts included in accounts payable related to these services totaled $4,356 and $2,008 at December 31, 2025 and 2024, respectively.

Note 10. Pension Plan

The Hospital maintains a defined contribution plan (401(a) plan) covering all employees. Employer and mandated employee contributions are computed at 4% and 3% of the covered payroll, respectively. The contributions are invested as each employee directs. Each participant chooses which accounts to use and may change the election once each calendar year. Contributions actually made by plan members and the Hospital aggregated $127,423 and $169,902 during 2025 and $130,441 and $173,259 during 2024, respectively. The Hospital does not control the plan assets.

The Hospital provides one additional defined contribution plan (457 plan). The Hospital does not make contributions to the 457 plan. Contributions made by plan members totaled $105,578 and $80,023 during 2025 and 2024, respectively. The plan year begins on January 1 and ends December 31. The Hospital does not control the plan assets

Note 11. Fredonia Regional Health Care Foundation, Inc.

The Fredonia Regional Health Care Foundation, Inc. (Foundation) is a nonprofit organized to perpetuate the advancement of health, health care and medical education, research and welfare services for residents of Fredonia, Kansas and its outlaying regions. The Foundation is not considered a component unit of the Hospital. The Foundation contributed $0 to the Hospital in 2025 and 2024.

Note 12. Subsequent Events

In March 2026, the Hospital entered into a $1.2 million short-term borrowing arrangement with First National Bank to support operating liquidity. The loan bears interest at approximately 5.5% and matures on July 14, 2026.