Trego County-Lemke Memorial Hospital

A Component Unit of Trego County, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2025 and 2024

Trego County-Lemke Memorial Hospital
Contents
December 31, 2025 and 2024

Independent Auditor's Report 1

Financial Statements

Balance Sheets 3

Statements of Revenues, Expenses and Changes in Net Position 4

Statements of Cash Flows 5

Notes to Financial Statements 7

Forvis Mazars, LLP
1551 N. Waterfront Parkway, Suite 300
Wichita, KS 67206
P 316.265.2811 | F 316.265.9405
forvismazars.us

Independent Auditor's Report

Board of Trustees
Trego County-Lemke Memorial Hospital
WaKeeney, Kansas

Opinion

We have audited the financial statements of Trego County-Lemke Memorial Hospital, a component unit of Trego 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 Trego County-Lemke Memorial 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 Trego County-Lemke Memorial 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). 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 Trego County-Lemke Memorial Hospital and to meet our other ethical responsibilities, in accordance with the 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 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 Trego County-Lemke Memorial 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 Trego County-Lemke Memorial 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 Trego County-Lemke Memorial 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
August 10, 2026

Trego County-Lemke Memorial Hospital
A Component Unit of Trego County, Kansas
Balance Sheets
December 31, 2025 and 2024

	2025	2024
ASSETS		
Current Assets		
Cash and cash equivalents	$ 645,926	$ 475,053
Patient accounts receivable, net of allowance;		
2025 - $339,319, 2024 - $419,726	1,806,966	2,688,330
Other receivables	321,866	1,214,396
Estimated amounts due from third-party payers	118,000	213,575
Supplies	176,458	180,784
Prepaid expenses and other	349,269	257,698
Funds held by foundation	11,899	-
Total Current Assets	3,430,384	5,029,836
Assets Limited as to Use	5,146,021	4,788,596
Capital Assets, Net	15,488,824	3,175,148
Lease Assets, Net	247,318	314,189
Subscription Assets, Net	-	293,042
Total Assets	$ 24,312,547	$ 13,600,811
LIABILITIES AND NET POSITION		
Current Liabilities		
Current portion of lease liabilities	$ 64,187	$ 64,643
Current portion of subscription liability	-	315,280
Accounts payable	592,710	870,082
Accrued salaries, wages, and benefits	432,925	439,213
Accrued paid time off	703,030	764,829
Total Current Liabilities	1,792,852	2,454,047
Other Liabilities		
Lease liabilities	206,425	270,612
Total Other Liabilities	206,425	270,612
Total Liabilities	1,999,277	2,724,659
Net Position		
Net investment in capital assets	15,465,530	3,131,844
Unrestricted	6,689,194	7,438,798
Restricted - expendable for specific operating activities	158,546	305,510
Total Net Position	22,313,270	10,876,152
Total Liabilities and Net Position	$ 24,312,547	$ 13,600,811

Trego County-Lemke Memorial Hospital
A Component Unit of Trego County, 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 - $245,197, 2024 - $255,829	$ 17,064,959	$ 16,936,699
Other	1,848,855	2,339,715
Total Operating Revenues	18,913,814	19,276,414
Operating Expenses		
Salaries and wages	8,452,603	8,250,866
Employee benefits	2,540,084	2,398,804
Supplies and other	8,965,429	7,887,729
Depreciation and amortization	1,514,136	1,064,787
Total Operating Expenses	21,472,252	19,602,186
Operating Loss	(2,558,438)	(325,772)
Nonoperating Revenues (Expenses)		
Noncapital appropriations - Trego County	700,000	700,000
Noncapital grants and gifts	8,921	2,070
Interest income	406,827	128,272
Interest expense	(20,169)	(48,299)
Loss on disposal of capital assets	-	(92,031)
Transfers to Trego County	(405,900)	(444,800)
Total Nonoperating Revenues	689,679	245,212
Deficiency of Revenues Over Expenses Before Capital Grants and Gifts	(1,868,759)	(80,560)
Capital Grants and Gifts	13,305,877	812,231
Increase in Net Position	11,437,118	731,671
Net Position, Beginning of Year	10,876,152	10,144,481
Net Position, End of Year	$ 22,313,270	$ 10,876,152

Trego County-Lemke Memorial Hospital
A Component Unit of Trego County, Kansas
Statements of Cash Flows
Years Ended December 31, 2025 and 2024

	2025	2024
Operating Activities		
Receipts from and on behalf of patients	$ 18,410,187	$ 16,351,296
Payments to suppliers and contractors	(9,330,046)	(7,408,401)
Payments to employees	(11,060,774)	(10,583,352)
Other receipts, net	2,373,096	1,914,528
Net Cash Provided by (Used in) Operating Activities	392,463	274,071
Noncapital Financing Activities		
Noncapital appropriations - Trego County	700,000	700,000
Transfers from - Trego County	(405,900)	(444,800)
Noncapital grants and gifts	1,221	2,070
Net Cash Provided by Noncapital Financing Activities	295,321	257,270
Capital and Related Financing Activities		
Capital grants and gifts	370,070	812,231
Principal paid on long-term debt	-	(11,095)
Principal paid on leases liability	(64,643)	(63,991)
Principal paid on subscription liability	(315,280)	(453,774)
Interest paid on long-term debt	-	(3,831)
Interest paid on lease liability	(4,720)	(26,226)
Interest paid on subscription liability	(15,449)	(18,242)
Proceeds from disposal of equipment	19,197	838
Purchases of capital assets	(551,289)	(731,801)
Net Cash Used in Capital and Related Financing Activities	(562,114)	(495,891)
Investing Activities		
Purchases of investments	(4,000)	-
Interest income received	406,628	128,272
Net Cash Provided by Investing Activities	402,628	128,272
Increase in Cash	528,298	163,722
Cash, Beginning of Year	5,263,649	5,099,927
Cash, End of Year	$ 5,791,947	$ 5,263,649

Trego County-Lemke Memorial Hospital
A Component Unit of Trego County, 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	$ 645,926	$ 475,053
Cash in noncurrent cash	5,146,021	4,788,596
Total Cash	$ 5,791,947	$ 5,263,649
Reconciliation of Net Operating Income (Loss) to Net Cash Used in Operating Activities		
Operating loss	$ (2,558,438)	$ (325,772)
Depreciation and amortization	1,514,136	1,064,787
Provision for uncollectible accounts	245,197	255,829
Change in operating assets and liabilities		
Patient accounts receivable	636,167	(1,127,552)
Estimated amounts due from and to third-party payers	95,575	(1,722)
Other receivables	892,530	(137,145)
Supplies	4,326	20,877
Prepaid expenses and other	(91,571)	(46,988)
Accounts payable	(277,372)	505,439
Accrued expenses	(68,087)	66,318
Net Cash Provided by Operating Activities	$ 392,463	$ 274,071
Supplemental Cash Flows Information		
Capital assets acquired through noncash capital grants and gifts	$ 12,935,807	$ -

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

Nature of Operations and Reporting Entity

Trego County-Lemke Memorial Hospital (Hospital) provides acute, long-term care services, rural health clinic services and assisted living services. The Hospital was created by statute and its Board of Trustees is appointed by the Trego County Board of Commissioners. The Hospital is located in WaKeeney, Kansas and is considered a component unit of Trego County (County). The Hospital is licensed as a Critical Access Hospital (CAH) with a bed capacity of 25 beds.

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 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 nonexchange transactions. Government-mandated 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. At December 31, 2025 and 2024, the hospital does not have any cash equivalents.

Noncapital Appropriations – Trego County

The Hospital received approximately 2% and 3% in 2025 and 2024, respectively, of its financial support from noncapital appropriations from the County property tax levy. These funds were used to support operations in both years.

Property taxes are levied by the County on the Hospital's behalf on January 1 and are intended to finance the Hospital's activities of the same calendar year. Amounts levied are based on assessed property values as of the preceding July 1. Revenue from property taxes is recognized in the year for which the taxes are levied.

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; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health and dental claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Noncurrent Cash

Noncurrent cash include (1) assets restricted by donors for specific operating activities, and (2) assets set aside by the Board of Trustees for future capital improvements over which the Board of Trustees retains control and may at its direction subsequently use for other purposes.

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, determined using the first-in, first-out method.

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair 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	10-15 years
Buildings	35-40 years
Fixed equipment	5-20 years
Moveable equipment	5-20 years

Lease Assets

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

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, Lease, and Subscription Asset Impairment

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

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. 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.

Net Position

Net position of the Hospital is classified in three components. Net investment in capital assets consist of capital, lease, and subscription assets net of accumulated depreciation and amortization and reduced by the outstanding balances of borrowings used to finance the purchase of those assets. Restricted expendable net position is noncapital assets that must be used for a particular purpose as specified by donors external to the Hospital. Unrestricted net position is remaining assets less remaining liabilities that do not meet the above conditions.

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 without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Income Taxes

As an essential government entity, 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. The Hospital has also been recognized as exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code.

Note 2. 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 licensed as a critical access hospital, and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audit 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 75% 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 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.

Net patient service revenue consists of the following for the years ended December 31:

	2025	2024
Gross patient service revenue	$ 23,047,847	$ 21,889,890
Contractual adjustments		
Medicare	(4,211,351)	(3,757,733)
Medicaid	45,291	337,580
Blue Cross	(521,758)	(544,648)
Other	(848,358)	(657,265)
Administrative adjustments	(184,753)	(77,862)
Charity care	(16,762)	2,566
Provision for uncollectible accounts	(245,197)	(255,829)
	$ 17,064,959	$ 16,936,699

Note 3. Deposits

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, $5,191,263 and $4,992,392 of the Hospital's bank balances of $5,866,352 and $5,665,760 was exposed to custodial credit risk as follows:

	2025	2024
Exposed to Custodial Risk	$ 5,191,263	$ 4,992,392
Bank Balances	$ 5,866,352	$ 5,665,760

Summary of Carrying Amounts

The carrying amounts of deposits are included in the Hospital's balance sheets as follows:

	2025	2024
Carrying value of deposits	$ 5,791,947	$ 5,263,649
Included in the following balance sheet captions		
Cash	$ 645,926	$ 475,053
Assets Limited as to Use	5,146,021	4,788,596
	$ 5,791,947	$ 5,263,649

Note 4. 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	$ 969,978	$ 1,513,508
Medicaid	210,180	215,534
Blue Cross	149,919	159,299
Other third-party payers	202,049	272,740
Self-pay	614,159	946,975
	2,146,285	3,108,056
Less allowance for uncollectible accounts	(339,319)	(419,726)
	$ 1,806,966	$ 2,688,330

Note 5. Capital, Lease and Subscription Assets

Capital assets activity for the years ended December 31 was:

	2025				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 2,500	$ -	$ -	$ -	$ 2,500
Land improvements	138,884	427,192	-	65,094	631,170
Buildings	7,302,912	10,644,082	-	5,025	17,952,019
Fixed equipment	3,711,498	1,810,801	(9,707)	28,866	5,541,458
Moveable equipment	4,506,731	593,025	(5,994)	203,075	5,296,837
Construction in progress	309,263	11,996	(19,199)	(302,060)	-
	15,971,788	13,487,096	(34,900)	-	29,423,984
Less accumulated depreciation					
Land improvements	(111,762)	(29,136)	-	-	(140,898)
Buildings	(6,247,903)	(594,382)	-	-	(6,842,285)
Fixed equipment	(2,704,110)	(224,864)	9,709	-	(2,919,265)
Moveable equipment	(3,732,865)	(305,841)	5,994	-	(4,032,712)
	(12,796,640)	(1,154,223)	15,703	-	(13,935,160)
Capital assets, net	$ 3,175,148	$ 12,332,873	$ (19,197)	$ -	$ 15,488,824

	2024				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 2,500	$ -	$ -	$ -	$ 2,500
Land improvements	138,884	-	-	-	138,884
Buildings	7,302,912	-	-	-	7,302,912
Fixed equipment	3,406,033	569,877	(264,412)	-	3,711,498
Moveable equipment	4,473,098	49,236	(15,603)	-	4,506,731
Construction in progress	196,913	112,688	(338)	-	309,263
	15,520,340	731,801	(280,353)	-	15,971,788
Less accumulated depreciation					
Land improvements	(109,766)	(1,996)	-	-	(111,762)
Buildings	(6,099,029)	(148,874)	-	-	(6,247,903)
Fixed equipment	(2,786,245)	(89,746)	171,881	-	(2,704,110)
Moveable equipment	(3,433,151)	(315,317)	15,603	-	(3,732,865)
	(12,428,191)	(555,933)	187,484	-	(12,796,640)
Capital assets, net	$ 3,092,149	$ 175,868	$ (92,869)	$ -	$ 3,175,148

Lease assets activity for the years ended December 31 was:

	2025			
	Beginning Balance	Additions	Disposals	Ending Balance
Buildings	$ 334,295	$ -	$ -	$ 334,295
Moveable equipment	167,691	-	-	167,691
	501,986	-	-	501,986
Less accumulated amortization	(187,797)	(66,871)	-	(254,668)
Lease assets, net	$ 314,189	$ (66,871)	$ -	$ 247,318

	2024			
	Beginning Balance	Additions	Disposals	Ending Balance
Buildings	$ 334,295	$ -	$ -	$ 334,295
Moveable equipment	167,691	-	-	167,691
	501,986	-	-	501,986
Less accumulated amortization	(118,506)	(69,291)	-	(187,797)
Lease assets, net	$ 383,480	$ (69,291)	$ -	$ 314,189

Subscription assets activity for the year ended December 31 was:

	2025				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Subscription IT assets	$ 1,611,733	$ -	$ -	$ -	$ 1,611,733
Less accumulated amortization Subscription IT assets	(1,318,691)	(293,042)	-	-	(1,611,733)
Subscription assets, net	$ 293,042	$ (293,042)	$ -	$ -	$ -

	2024				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Subscription IT assets	$ 1,611,733	$ -	$ -	$ -	$ 1,611,733
Less accumulated amortization Subscription IT assets	(879,128)	(439,563)	-	-	(1,318,691)
Subscription assets, net	$ 732,605	$ (439,563)	$ -	$ -	$ 293,042

Note 6. 340B Drug Pricing Program

The Hospital participates in the 340B Drug Pricing Program (340B Program) enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues of $1,272,607 and $1,944,376 for the years ending December 31, 2025 and 2024, respectively, which is included in other operating revenue in the accompanying statement of revenues and expenses and changes in net position. The Hospital recorded expenses of $790,449 and $1,170,421 for the years ending December 31, 2025 and 2024, respectively, which is included in supplies and other in the accompanying statements of revenues and expenses and changes in net position. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

Note 7. Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. The policy has limits of $200,000 per occurrence up to an annual aggregate of $600,000. 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 malpractice 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 claim experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 8. 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
Lease liabilities	$ 335,255	$ -	$ (64,643)	$ 270,612	$ 64,187
Subscription liabilities	315,280	-	(315,280)	-	-
	$ 650,535	$ -	$ (379,923)	$ 270,612	$ 64,187

	2024				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt	$ 11,095	$ -	$ (11,095)	$ -	$ -
Lease liabilities	399,246	-	(63,991)	335,255	64,643
Subscription liabilities	769,054	-	(453,774)	315,280	315,280
	$ 1,179,395	$ -	$ (528,860)	$ 650,535	$ 379,923

Lease Liabilities

The Hospital leases property and equipment, the terms of which expire in various years through 2031.

The following is a schedule by year of payments under the leases as of December 31, 2025:

Year Ending December,	Total To Be Paid	Principal	Interest
2026	$ 76,260	$ 64,187	$ 12,073
2027	70,612	61,811	8,801
2028	42,372	35,958	6,414
2029	42,372	37,798	4,574
2030	42,372	39,731	2,641
2031	31,779	31,127	652

Subscription Liabilities

The Hospital had one subscription-based information technology arrangement (SBITA), the term of which expired in 2025. The subscription required monthly payments of approximately $40,000.

Note 9. Revenue Pledge Agreement

The Hospital has entered into a revenue pledge agreement with the County to fund a portion of the County's bond debt service. In February 2022, the County issued $12,870,000 in Series 2022 General Obligation Refunding and Improvement Bonds. The bond proceeds were used to make various improvements to the Hospital, however, the County is the legal obligor of the bonds. The Hospital has pledged to pay a portion of the annual debt service from its revenues. Under the revenue pledge agreement, the County will contribute a minimum of $458,530 each year for debt service. Annual debt service will range from approximately $260,000 to $930,000 over the life of the bonds. For the amounts in excess of the County's contribution, the Hospital has entered into a pledge of revenues agreement with the County for the remaining annual debt service. Under the terms of the pledge agreement, the Hospital has certain restrictions related to obtaining future borrowings or making additional pledges of its revenues while the bonds remain outstanding.

Annual debt service for the period of September 2025 through August 2026 is $915,600. The Hospital's monthly payments were $32,550 for the period of September 2024 through August 2025 and $36,375 for the period of September 2025 through August 2026 to Trego County to cover the Hospital's revenue pledge commitment. Monthly transfers to Trego County are recorded as Transfers to Trego County in the statements of revenue, expenses and changes in net position, the amount of monthly transfers will adjust annually each September until the revenue pledge agreement expires. The County made capital contributions to the Hospital of approximately $12,935,600 during 2025, these are reflected within Capital Grants and Gifts on the statement of revenues, expenses and changes in net position.

Note 10. Pension Plans

Defined Contribution Plans

The Hospital maintains a contributory pension plan for eligible employees. Eligibility is established by all employees 21 years of age or older and have completed one year of service. Employer contributions are computed at the rate of 4.5% of annual compensation plus 9% of the excess over $7,800. Employee contributions are computed at the rate of 2.5% of annual compensation plus 5% of the excess over $7,800. Benefits are funded by an annuity contract with an insurance company. The plan is funded for past service on an installment basis over the estimated remaining duration of employment from the effective date of the plan to the employee's normal retirement date. Benefits vest after one year of service with 100% vesting after five years of service. In case of the death or termination of an employee prior to retirement, all funds contributed by the Hospital, which are not vested, will be returned to the Hospital. Contributions actually made by plan members totaled $492,709 and $492,334 in 2025 and 2024, respectively. Hospital contributions totaled $581,385 and $566,702 in 2025 and 2024, respectively.

The Hospital provides a 403(b) plan to substantially all employees of the Hospital. The employees' total salary deferral is limited by the Internal Revenue Service (IRS) annually. Employees are always 100% vested in the contributions they choose to defer. If an employee is 50 years old or older and has met the annual IRS deferral limit, the employee may contribute a catch-up deferral that is also limited by the IRS annually. The Hospital does not make contributions to the 403(b) plan.

Deferred Compensation Plan

The Hospital maintains a 457 plan for all eligible employees. Eligibility is established by all employees who elect to participate in the plan by executing a written participation agreement. The employee may contribute up to $7,500 of their gross compensation per year. Employee contributions to all benefit plans cannot exceed 25% of their gross compensation per year. Benefits are funded by fixed and variable annuities with an insurance company. The Hospital does not make contributions to the 457 plan.

Note 11. Management/Services Agreement

The Board of Trustees of the Hospital has contracted with Great Plains Health Alliance, Inc. (GPHA) for various services, including management and data processing 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 totaled $845,021 and $806,814 in 2025 and 2024, respectively. Amounts included in accounts payable related to these services totaled $5,826 and $0 at December 31, 2025 and 2024, respectively.

Note 12. Trego Hospital Endowment Foundation, Inc.

The Trego Hospital Endowment Foundation, Inc. (Foundation) is a not-for-profit corporation established to improve medical services to the patients in the area served by the Hospital. The Foundation is not considered a component unit of the Hospital. Foundation contributions to the Hospital of $330,073 and $200,287 in 2025 and 2024, respectively, have been included in the Hospital's statements of revenues, expenses and changes in net position as capital grants and gifts.

Note 13. Great Plains Employee Benefits Trust

In response to amendments to Kansas Insurance Code related to multi-employer welfare arrangements, GPHA restated its existing voluntary employees' beneficiary association (VEBA) trust as described in Section 501(c)(9) of the Internal Revenue Code, which is named the Great Plains Employee Benefits Trust (the Trust). The Trust is governed by its Board of Trustees. One of the purposes of the Trust is to provide the self-funded GPHA Employee Benefits Plan (the Plan) for its member organizations and their participating employees. The Hospital is a member organization in the Trust and substantially all of the Hospital's employees and their dependents are eligible to participate in the Plan. The Plan provides medical benefits, prescription drug benefits and dental benefits for a benefit period that runs each year from July 1 through June 30. The participant's monthly premiums are determined by the Trust. The Trust may change the premiums from time to time. The Plan agreement specifies that the Trust will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts. The Trust accrues a provision for self-insured employee benefit claims including both claims reported and claims incurred but not yet reported. If a net deficit position is anticipated by the Trust after consideration of the accrued provision, the Trust will administer insurance assessments to its member organizations based on a systematic allocation method. No such insurance assessment was administered to the Hospital for the years ended December 31, 2025 and 2024, and management does not anticipate that an assessment will be required for the plan year ended June 30, 2025.