Independent Auditor's Report and Financial Statements

Lincoln County Hospital

March 31, 2025 and 2024

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Lincoln County Hospital
Management's Discussion and Analysis
Years ended March 31, 2025 and 2024

Our discussion and analysis of the financial performance of Lincoln County Hospital provides a narrative overview of the Hospital's financial activities for the years ended March 31, 2025 and 2024. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The Hospital reported an operating loss of $585,368 in 2025, $1,126,405 in 2024, and $973,528 in 2023. After consideration of tax appropriations and other nonoperating revenues and expenses and capital contributions, the Hospital's net position decreased by $65,943 in 2025 and decreased by $584,817 in 2024.

Using these financial statements

The Hospital'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 the Hospital, and resources held by or for the benefit of the Hospital.

One of the most important questions asked about the Hospital's finances is, "Is the Hospital 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 the Hospital'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. Revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in them. The Hospital's net position - the difference between assets and liabilities may be thought of as one way to measure the financial health, or financial position. Over time, increases or decreases in the Hospital'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 the Hospital'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 the Hospital.

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operating, 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, deferred outflows, liabilities, and net position

Table 1 below summarizes the Hospital's assets, deferred outflows, liabilities, and net position for the last three fiscal years.

Table 1: Assets, Deferred Outflows, Liabilities, and Net Position

	2025	2024	2023
Assets			
Current assets	$3,071,217	$3,050,039	$3,464,225
Capital assets, net	2,147,178	2,621,508	3,014,849
Other noncurrent assets	458,788	440,829	471,671
Total assets	5,677,183	6,112,376	6,950,745
Deferred outflows of resources on advance refunding	97,431	115,941	135,849
Liabilities			
Current liabilities	1,040,319	1,063,459	921,527
Noncurrent liabilities	3,132,882	3,497,502	3,814,894
Total liabilities	4,173,201	4,560,961	4,736,421
Total net position	$1,601,413	$1,667,356	$2,350,173

Our ratio of current assets to current liabilities was 3.0, 2.9, and 3.8 for 2025, 2024, and 2023, respectively. Current assets are impacted by the payment position with Medicare, change in net accounts receivable, and the change in current liabilities.

The Hospital's capital acquisitions were $90,513, $167,636, and $428,603 during 2025, 2024, and 2023, respectively. The remaining change in capital assets, net, results from the normal annual depreciation and amortization provisions of $564,843, $560,977, and $528,778 during 2025, 2024, and 2023, respectively.

Other noncurrent assets consist of Board funds that are available to fund the continuing operation of the Hospital, a debt service reserve fund, and funds set aside for future replacement of capital assets. These balances will change as tax appropriations and contributions are received.

The board-designated funds increased by $17,999 in 2025 after an increase of $12,346 in 2024. Also included in other noncurrent assets are funds held by the Lincoln County Public Building Commission (PBC) which are for current debt service requirements.

Operating results and changes in net position

In 2025, the Hospital's net position decreased by $65,943. This change is made up of different components as displayed below in Table 2.

Table 2: Operating Results and Changes in Net Position

	2025	2024	2023
Operating revenues			
Net patient service revenue	$7,044,415	$6,545,241	$6,855,879
Other operating revenue	547,124	524,031	487,749
Total operating revenues	7,591,539	7,069,272	7,343,628
Operating expenses			
Salaries and benefits	3,953,813	3,798,839	3,852,859
Supplies and other	3,658,251	3,835,861	3,935,519
Depreciation and amortization	564,843	560,977	528,778
Total operating expenses	8,176,907	8,195,677	8,317,156
Operating loss	(585,368)	(1,126,405)	(973,528)
Nonoperating revenues net of expenses and contributions for capital	519,425	541,588	1,059,776
Change in net position	$ (65,943)	$ (584,817)	$ 86,248

The first component of the overall change in the Hospital's net position is its operating income (loss) - generally the difference between net patient service revenue and other operating revenues and the expenses incurred to generate those revenues. In 2025, the Hospital's operating loss decreased by $541,037 in comparison to 2024, while in 2024 the operating loss increased by $152,877 in comparison to 2023. The Hospital's net patient service revenue in 2025 increased by 7.6 percent and in 2024 decreased by 4.5 percent over the previous year. The change in net patient service revenue is affected by changes in charges to patients, payment rates by third-party payors, patient volumes, the type of services provided, bad debts, and to a greater extent, the change in Medicare reimbursable costs. The change in net revenues was accompanied with a 0.2 percent decrease in operating expenses during 2025, and a 1.5 percent decrease in 2024.

The Hospital received 76 percent and 75 percent of its net patient revenue from the Medicare program in 2025 and 2024, respectively, with these revenues determined based on the Hospital's status as a critical access hospital provider. This designation results in Hospital services to Medicare beneficiaries being reimbursed primarily based upon allowable costs. This high concentration of Medicare revenues, however, makes it challenging for the Hospital to generate operating profits, as revenues from non-Medicare payers are not sufficient to cover the costs that are not reimbursed by the Medicare program.

Employee salaries, wages, and benefits increased by $154,974 or 4.1 percent in 2025, and decreased by $54,020 or 1.4 percent in 2024, as compared with the previous year. The change in salaries is driven by two factors. The change in full-time equivalent employees (FTEs) and changes in employee hourly wages. The Hospital employed an average of 43 FTEs during 2025, a decrease of 2 FTEs from 2024. FTEs for 2024 decreased by 3 from 2023. FTEs were lower in 2025 due to staffing vacancies and the utilization of contract labor to provide coverage. Salaries, wages, and employee benefits represent 56.1 percent, 58.0 percent, and 56.2 percent of total net patient service revenue in 2025, 2024, and 2023, respectively. Employee benefits as a percentage of salary and wage expense were 28.4 percent in 2025, 28.3 percent in 2024, and 28.4 percent in 2023.

Supplies and other expenses decreased by $177,610 in 2025, decreased by $99,658 in 2024, and increased by $286,892 in 2023.

Nonoperating revenues (expenses) include an annual tax appropriation from Lincoln County, noncapital grants and contributions, interest expense, and investment income earned on investments. The Hospital is highly dependent on these nonoperating revenues to offset operating losses and to maintain the financial health necessary to ensure that the Hospital continues to provide high-quality health care services to our patients. The tax appropriations received decreased by $11,550 in 2025. The Hospital also recognized $637,110 of COVID-19 grant funds in 2023.

This financial report is designed to provide a general overview of the Hospital's finances and to discuss the significant changes in our financial statements. If you have any questions about the report or need additional financial information, contact the Administration Office at Lincoln County Hospital, 624 N. 2nd, Lincoln, Kansas 67455.

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Independent Auditor's Report

Board of Trustees
Lincoln County Hospital

Opinion

We have audited the accompanying financial statements of Lincoln County Hospital (the Hospital), as of and for the years ended March 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Hospital'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 financial position of the business-type activity of Lincoln County Hospital as of March 31, 2025 and 2024, and the changes in net position and 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 audit in accordance with auditing standards generally accepted in the United States of America 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 the 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.

Emphasis of Matters

As discussed in Note A19 to the financial statements, in 2025 the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 100, *Accounting Changes and Error Corrections*, and Statement No. 101, *Compensated Absences*. Our opinion is not modified with respect to these matters.

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 the Hospital'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 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 generally accepted 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 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 the 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 the 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

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 audit 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 an opinion on the financial statements as a whole. The accompanying schedules of patient service revenue and operating expenses by functional division are presented for purposes of additional analysis and are not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and

other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of patient service revenue and operating expenses by functional division is fairly stated, in all material respects, in relation to the financial statements as a whole.



Topeka, Kansas
July 3, 2025

Financial Statements

Lincoln County Hospital
Statements of Net Position
March 31, 2025 and 2024

Assets and Deferred Outflows of Resources

	2025	2024
Current assets		
Cash	$2,059,995	$1,542,367
Assets limited as to use	65,562	224,449
Accounts receivable, net of allowance for uncollectible accounts of $114,201 in 2025 and $100,215 in 2024	699,517	491,659
Other receivables	120,040	47,253
Inventories	101,103	169,311
Estimated third-party payor settlements	25,000	575,000
Total current assets	3,071,217	3,050,039
Assets limited as to use		
By Board of Trustees		
For operations	16,318	19,013
For debt service reserve	388,772	370,124
For capital assets	53,698	51,652
By Public Building Commission	65,562	224,489
	524,350	665,278
Less amounts required to meet current obligations	65,562	224,449
	458,788	440,829
Capital assets		
Capital assets not being depreciated	75,176	21,725
Capital assets, net of accumulated depreciation	1,877,693	2,323,628
Leased assets, net of accumulated amortization	194,309	276,155
Capital assets, net	2,147,178	2,621,508
Total assets	5,677,183	6,112,376
Deferred outflows of resources		
Deferred outflows on advance refunding	97,431	115,941
Total assets and deferred outflows of resources	$5,774,614	$6,228,317

The accompanying notes are an integral part of these statements.

Liabilities and Net Position

	2025	2024
Current liabilities		
Current maturities of long-term obligations	$ 270,000	$ 265,000
Current maturities of lease liabilities	79,330	84,795
Accounts payable and other accrued liabilities	126,930	163,384
Salaries payable	179,661	171,107
Payroll taxes payable	85,952	78,935
Accrued compensated absences	155,563	157,708
Other accrued benefits	35,020	34,005
Interest payable	7,863	8,525
Estimated third-party payor settlements	100,000	100,000
Total current liabilities	1,040,319	1,063,459
Long-term liabilities		
Long-term obligations, less current maturities	2,966,014	3,253,304
Lease liabilities, less current maturities	113,868	193,198
Accrued compensated absences, net of current portion	53,000	51,000
Total long-term liabilities	3,132,882	3,497,502
Total liabilities	4,173,201	4,560,961
Net position		
Invested in capital assets net of related debt	(1,184,602)	(1,058,848)
Restricted for debt service	65,562	224,489
Unrestricted	2,720,453	2,501,715
Total net position	1,601,413	1,667,356
Total liabilities and net position	$5,774,614	$6,228,317

Lincoln County Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years ended March 31, 2025 and 2024

	2025	2024
Operating revenues		
Net patient service revenue	$7,044,415	$ 6,545,241
Other	547,124	524,031
Total operating revenues	7,591,539	7,069,272
Operating expenses		
Salaries and wages	3,079,685	2,961,792
Employee benefits	874,128	837,047
Supplies and other	3,658,251	3,835,861
Depreciation and amortization	564,843	560,977
Total operating expenses	8,176,907	8,195,677
Operating loss	(585,368)	(1,126,405)
Nonoperating revenues (expenses)		
Tax appropriations	494,950	506,500
Investment income	98,206	62,838
Interest expense	(118,275)	(132,592)
Noncapital grants and contributions	13,067	20,345
Gain on disposal of assets	1,000	
Total nonoperating revenues	488,948	457,091
Excess of expenses over revenues before capital grants and contributions	(96,420)	(669,314)
Capital grants and contributions	30,477	84,497
Change in net position	(65,943)	(584,817)
Net position beginning of year		
As previously reported	1,754,356	2,350,173
Prior period adjustment for change in accounting principle	(87,000)	(98,000)
As restated	1,667,356	2,252,173
Net position end of year	$1,601,413	$ 1,667,356

The accompanying notes are an integral part of these statements.

Lincoln County Hospital
Statements of Cash Flows
Years ended March 31, 2025 and 2024

	2025	2024
Cash flows from operating activities		
Receipts from and on behalf of patients	$ 7,386,557	$ 6,001,789
Payments to or on behalf of employees	(3,937,372)	(3,839,795)
Payments for supplies and services	(3,626,497)	(3,725,505)
Other receipts and payments	474,337	533,528
Net cash provided (used) by operating activities	297,025	(1,029,983)
Cash flows from noncapital financing activities		
Tax appropriations	494,950	506,500
Noncapital grants and contributions	13,067	20,345
Net cash provided by noncapital activities	508,017	526,845
Cash flows from capital and related financing activities		
Purchase of capital assets	(90,513)	(167,636)
Proceeds from sale of capital assets	1,000	
Capital grants and contributions	30,477	84,497
Principal paid on lease liabilities	(84,795)	(93,503)
Interest paid on lease liabilities	(15,417)	(21,969)
Principal paid on long-term debt obligations	(265,000)	(255,000)
Interest paid on long-term debt obligations	(102,300)	(109,950)
Net cash used by capital and related financing activities	(526,548)	(563,561)
Cash flows from investing activities		
Investment income received	98,206	62,838
Net cash provided by investing activities	98,206	62,838
Change in cash and cash equivalents	376,700	(1,003,861)
Cash and cash equivalents at beginning of year	2,207,645	3,211,506
Cash and cash equivalents at end of year	$ 2,584,345	$ 2,207,645
Reconciliation of cash and cash equivalents		
Cash	$ 2,059,995	$ 1,542,367
Assets limited as to use	524,350	665,278
	$ 2,584,345	$ 2,207,645

The accompanying notes are an integral part of these statements.

Lincoln County Hospital
Statements of Cash Flows - Continued
Years ended March 31, 2025 and 2024

	2025	2024
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	$ (585,368)	$ (1,126,405)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation and amortization	564,843	560,977
Provision for bad debts	224,253	189,683
Changes in		
Accounts receivable	(432,111)	(213,135)
Estimated third-party payor settlements	550,000	(520,000)
Other receivables	(72,787)	9,497
Inventories	68,208	21,002
Prepaid expenses and other		9,120
Accounts payable and accrued expenses	(20,013)	39,278
Net cash provided (used) by operating activities	$ 297,025	$ (1,029,983)

The accompanying notes are an integral part of these statements.

Lincoln County Hospital
Notes to Financial Statements
March 31, 2025 and 2024

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

1. Reporting entity

Lincoln County Hospital (the Hospital) is owned by Lincoln County, Kansas, and is operated by the Board of Trustees of the Hospital, a seven-member governing board appointed by the governing body of the County. The Hospital, which was organized in 1952, is a critical access hospital located in Lincoln, Kansas. The Hospital can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Hospital is a component unit of the County.

2. 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.

3. Basis of accounting

The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

4. Cash and cash equivalents

The Hospital considers all cash and highly-liquid debt instruments with maturities of twelve months or less to be considered cash equivalents for purposes of the cash flow statement.

5. Allowance for doubtful accounts

The Hospital 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. The Hospital estimates this allowance based on the balance of private pay receivables.

6. Inventories

Inventories are stated at the lower of cost or net realizable value with cost determined using the first-in, first-out method.

7. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for on-going hospital operations, for the replacement of capital assets, and for debt service reserve and assets under a bond indenture agreement that are held by the Lincoln County Public Building Commission. Assets limited as to use that are required for obligations classified as current liabilities are reported in current assets.

8. Capital assets

Capital assets are stated at historical cost. Depreciation and amortization of capital assets are provided on the straight-line method over the estimated useful lives of the assets which are substantially in conformity with the guidelines established by the American Hospital Association.

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

Lease assets are recognized at the lease commencement date and represent the Hospital's 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 date 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.

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 useful lives of the item or the properties.

9. Deferred outflows of resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and will be recognized as an expense or expenditure in a future period.

10. Accrued compensated absences

Employees of the Hospital are entitled to paid vacation and sick leave depending on length of service and whether they are full or part time. Upon resignation, termination, or retirement from service with the Hospital, employees are entitled to payment for all vested accrued vacation, up to an allowable maximum. Sick leave benefits vest, but are not paid out upon termination. The Hospital accrues vacation benefits as earned and records an estimate of sick leave based on historical usage.

11. Net position

Net position of the Hospital is classified into three components. "Net position invested in capital assets net of related debt" consists of capital assets net of accumulated depreciation and amortization and reduced by the balances of any outstanding borrowings used to finance the purchase of assets. "Restricted net position" is net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Hospital, including amounts deposited with the Lincoln County, Kansas, Public Building Commission as required under the Pledge of Revenues and Operation Agreement signed in connection with the issuance of bonds by the Lincoln County, Kansas, Public Building Commission. "Unrestricted net position" is remaining net position that does not meet the definitions of the other two components of net position.

12. Operating revenues and expenses

The Hospital's statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, which is the Hospital's principal activity. Nonexchange revenues, including noncapital grants and contributions and tax appropriations, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

13. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, 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.

14. Cost of borrowing

Financing costs incurred in connection with the issuance of long-term debt are expensed as incurred.

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

15. Grants and contributions

From time to time, the Hospital receives 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 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 the Hospital has both restricted and unrestricted resources available to finance a particular program, it is the Hospital's policy to use restricted resources before unrestricted resources.

17. Charity care

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

18. Income taxes

The Hospital is exempt from federal income taxes pursuant to Section 115 of the Internal Revenue Code.

19. Adoption of accounting pronouncements

Effective April 1, 2024, the Hospital adopted GASB 100, *Accounting Changes and Error Corrections*. GASB 100 provides enhanced accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information. It also addresses the impact of accounting changes and error corrections on required and other supplementary information. GASB 100 requires disclosures for accounting changes and error corrections to include descriptive information about accounting changes and error corrections and information about the quantitative effects on beginning balances from accounting changes and error corrections.

Effective April 1, 2024, the Hospital adopted Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. GASB 101 requires that liabilities for compensated absences be recognized for (1) leave that has not been used, and (2) leave that has been used but not yet paid in cash or settled through noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services the employee already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means. Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, an entity should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences. GASB 101 requires a retrospective application as of the beginning of the earliest period presented (i.e., April 1, 2023). Comparative prior year financial statements have been adjusted to apply this standard retrospectively, which resulted in a beginning net position adjustment of $98,000. See Note N for amounts restated

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

20. Subsequent events

The Hospital has evaluated subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

Note B - Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established charge rates. The amounts reported on the statement of net position as estimated third-party payor settlements consist of management's best estimate of the 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 - Services rendered to Medicare program beneficiaries are paid under the provisions applicable to critical access hospitals. Payments to the Hospital under the critical access provisions for inpatient, outpatient, and swing-bed patient services are determined on the basis of allowable costs. The Hospital is paid for cost reimbursable and other services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits or reviews thereof by the Medicare administrative contractor. The Hospital'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. The Hospital's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through March 31, 2023.

Medicaid - Services rendered to Medicaid program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors.

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.

A summary of gross and net patient service revenue follows:

	2025	2024
Gross patient service revenue		
Inpatient	$1,421,956	$1,477,143
Outpatient	3,870,043	3,425,768
Physician services	234,846	201,657
Rural health clinic	463,738	442,681
	5,990,583	5,547,249
Third-party contractual adjustments	1,327,563	1,215,471
Charity care	(15,385)	(12,132)
Other discounts and allowances	(34,093)	(15,664)
Provision for bad debts	(224,253)	(189,683)
Net patient service revenue	$7,044,415	$6,545,241

Note B - Net Patient Service Revenue - Continued

Revenue from the Medicare program accounted for approximately 76 percent and 75 percent of the Hospital's net patient service revenue during 2025 and 2024, respectively. During 2025, the Hospital recognized $294,138 of revenue from its 2020 Medicare cost report which was reopened and closed during the year. Laws and regulations governing the Medicare program are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

The Hospital maintains records to identify and monitor the level of charity care it provides. Charges foregone for services and supplies furnished under its charity care policy for 2025 and 2024 were $15,385 and $12,132, respectively. The Hospital estimates that the cost of providing charity care, based on overall cost-to-charge ratios obtained from the Hospital's cost report, was $20,456 and $12,582 for 2025 and 2024, respectively.

Note C - Allowance for Uncollectible Accounts

The Hospital's allowance for uncollectible accounts on amounts due from patients was 76 percent and 75 percent of self-pay accounts receivable as of March 31, 2025 and 2024, respectively. The Hospital's net bad debt write-offs were $182,361 and $184,364, for the years ended March 31, 2025 and 2024, respectively. The Hospital did not change its charity care or uninsured discount policies during the years ended March 31, 2025 and 2024. The Hospital does not maintain a material allowance for uncollectible accounts from third-party payors, nor has it incurred any significant bad debt write-offs from third-party payors.

Note D - Deposits with Financial Institutions

Kansas statutes authorize the Hospital 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 total deposits in excess of FDIC coverage at any given time and the securities pledged be deposited with a Kansas state or national bank or trust company, the Federal Reserve Bank, or the Federal Home Loan Bank.

At March 31, 2025, the carrying amount of the Hospital's bank deposits was $2,518,483 and the bank balances were $2,715,484. Of the bank balances, $500,000 was covered by federal depository insurance and $2,215,484 was collateralized with securities held by a third-party bank.

Note E - Assets Limited as to Use

The composition of assets limited as to use, which are invested in cash and certificates of deposit, is as follows:

	2025	2024
Board of Trustee funds	$ 458,788	$ 440,789
Under bond agreements	65,562	224,489
Total assets limited as to use	$ 524,350	$ 665,278

Assets limited as to use by bond agreements are held by the Lincoln County Public Building Commission for the repayment of principal and interest on the bonds.

Note F - Capital Assets

Capital asset additions, retirements, and balances are summarized as follows:

	Balance March 31, 2024	Transfers and additions	Retirements	Balance March 31, 2025
Capital assets not being depreciated				
Land	$ 19,725	$ -	$ -	$ 19,725
Projects in progress	2,000	53,451		55,451
Total capital assets not being depreciated	21,725	53,451	-	75,176
Capital assets being depreciated				
Land improvements	193,089			193,089
Buildings	2,354,859			2,354,859
Fixed equipment	5,621,122	21,050		5,642,172
Movable equipment	3,092,342	16,012		3,108,354
Total capital assets being depreciated	11,261,412	37,062	-	11,298,474
Less accumulated depreciation				
Land improvements	176,436	10,593		187,029
Buildings	1,829,189	77,553		1,906,742
Fixed equipment	4,382,851	246,329		4,629,180
Movable equipment	2,549,308	148,522		2,697,830
Total accumulated depreciation	8,937,784	482,997	-	9,420,781
Total capital assets being depreciated, net	2,323,628	(445,935)	-	1,877,693
Leased assets being amortized				
Leased equipment	532,525			532,525
Less accumulated amortization				
Leased equipment	256,370	81,846		338,216
Total leased assets being amortized, net	276,155	(81,846)	-	194,309
Capital assets, net	$ 2,621,508	$ (474,330)	$ -	$ 2,147,178

Note F - Capital Assets - Continued

	Balance April 1, 2023	Transfers and additions	Retirements	Balance March 31, 2024
Capital assets not being depreciated				
Land	$ 19,725	$ -	$ -	$ 19,725
Projects in progress	2,748	(748)		2,000
Total capital assets not being depreciated	22,473	(748)	-	21,725
Capital assets being depreciated				
Land improvements	193,089			193,089
Buildings	2,339,462	15,397		2,354,859
Fixed equipment	5,615,627	5,495		5,621,122
Movable equipment	2,948,419	147,323	3,400	3,092,342
Total capital assets being depreciated	11,096,597	168,215	3,400	11,261,412
Less accumulated depreciation				
Land improvements	165,687	10,749		176,436
Buildings	1,751,533	77,656		1,829,189
Fixed equipment	4,137,531	245,320		4,382,851
Movable equipment	2,419,891	132,986	3,569	2,549,308
Total accumulated depreciation	8,474,642	466,711	3,569	8,937,784
Total capital assets being depreciated, net	2,621,955	(298,496)	(169)	2,323,628
Leased assets being amortized				
Leased equipment	532,525			532,525
Less accumulated amortization				
Leased equipment	162,104	94,266		256,370
Total leased assets being amortized, net	370,421	(94,266)	-	276,155
Capital assets, net	$ 3,014,849	$ (393,510)	$ (169)	$ 2,621,508

Note G - Long-term Obligations

Long-term obligations are summarized as follows:

	2025	2024
Lincoln County, Kansas Public Building Commission Refunding Revenue Bonds, Series 2016; interest rate of 2.0% to 3.0%; issued on October 6, 2016; in the original amount of $5,330,000; due serially through March 1, 2035	$ 3,145,000	$ 3,410,000
Add net unamortized premium of bonds	91,014	108,304
Less current maturities of long-term debt	(270,000)	(265,000)
Long-term debt, net of current maturities	$ 2,966,014	$ 3,253,304

The following is a summary of changes in long-term obligations:

Outstanding at April 1, 2023	$ 3,665,000
Principal payments	(255,000)
Outstanding at March 31, 2024	3,410,000
Principal payments	(265,000)
Outstanding at March 31, 2025	$ 3,145,000

On December 15, 2008, the Lincoln County, Kansas, Public Building Commission (PBC) issued Revenue Bonds, Series 2008 (the Bonds), in the amount of $6,300,000, on behalf of the Hospital pursuant to a bond resolution dated December 1, 2008. The proceeds were used, together with other available funds of the Hospital, for the purpose of renovating the Hospital building (the Project). In 2016, these bonds were legally defeased.

On October 6, 2016, the Lincoln County, Kansas, PBC issued $5,330,000 in Refunding Revenue Bonds, Series 2016, on behalf of the Hospital. The proceeds of these bonds were used to advance refund $5,145,000 of the Series 2008 bonds. As a part of this transaction, the Hospital recognized a deferred refunding loss which is reported as a deferred outflow. The refunding loss is being systematically amortized through March 1, 2035. The proceeds from this issue were placed in escrow and were used to (1) on March 1, 2018, advance refund Series 2008 bonds scheduled to mature, inclusive, in the aggregate principal amount of $5,145,000, and (2) pay certain costs related to the issuance of the 2016 bonds.

The PBC is a municipal corporation created by the County to issue the Bonds. In connection with the issuance of the Bonds, the PBC and the County entered into a lease agreement in which the PBC leased the Project to the County for rental payments sufficient to provide for the payment of principal and interest on the Bonds. The lease contains a covenant by the County to make all rental payments required under the lease from whatever source of revenues is legally available and to levy ad valorem taxes without limit if necessary to make such payments.

In connection with the issuance of the Bonds, the Hospital and the County entered into a pledge of revenues agreement. Under the agreement, the Hospital pledged its net revenues to the County to secure the payment of principal and interest on the Bonds. The pledge of revenues agreement requires the Hospital to set aside certain amounts sufficient to pay principal and interest on the Bonds as payments are due. Such reserves were maintained and are included with assets limited as to use in the financial statements.

Note G - Long-term Obligations - Continued

Scheduled annual debt service requirements on the bonds with the Public Building Commission are as follows:

	Principal	Interest	Total
2026	$ 270,000	$ 94,350	$ 364,350
2027	280,000	86,250	366,250
2028	290,000	77,850	367,850
2029	305,000	69,150	374,150
2030	310,000	60,000	370,000
2031-2035	1,690,000	155,250	1,845,250
	$ 3,145,000	$ 542,850	$ 3,687,850

Total interest costs are summarized as follows:

	2025	2024
Interest incurred	$ 117,056	$ 131,281
Amortization of bond premium	(17,291)	(18,597)
Amortization of deferred outflows on advanced refunding	18,510	19,908
Interest expense	$ 118,275	$ 132,592

Note H - Lease Liabilities

Lease liabilities are summarized as follows:

	2025	2024
Equipment lease liability; interest rate of 10.5%; payable in monthly installments of $802 through December 2027	$ 22,906	$ 29,734
Equipment lease liability; interest rate of 7.2%; payable in monthly installments of $2,114 through August 2024		10,385
Equipment lease liability; interest rate of 6.0%; payable in monthly installments of $2,572 through November 2028	101,358	125,354
Equipment lease liability; interest rate of 6.0%; payable in monthly installments of $1,400 through July 2026	20,184	35,277
Equipment lease liability; interest rate of 6.0%; payable in monthly installments of $2,696 through November 2026	48,750	77,243
	193,198	277,993
Less current maturities of leased liabilities	(79,330)	(84,795)
Leased liabilities, net of current maturities	$ 113,868	$ 193,198

Note H - Lease Liabilities - Continued

The following is a summary of changes in the lease liabilities:

Outstanding at April 1, 2023	$ 371,496
Principal payments	(93,503)
Outstanding at March 31, 2024	277,993
Principal payments	(84,795)
Outstanding at March 31, 2025	$ 193,198

Scheduled annual lease liability payments are as follows:

	Principal	Interest	Total
2026	$ 79,330	$ 10,331	$ 89,661
2027	58,119	5,442	63,561
2028	35,628	2,455	38,083
2029	20,121	455	20,576
	$ 193,198	$ 18,683	$ 211,881

Note I - Accrued Compensated Absences

The Hospital offers compensated absences to eligible employees in the form of paid vacation and sick leave. The Hospital will pay out unused vacation benefits but any unused sick leave benefits will not be paid out upon termination. The Hospital accrues a liability for the vested vacation leave and an estimate of the vested sick leave benefits to be used by employees.

Accrued compensated absences consist of the following:

	2025	2024
Estimated compensated absences	$ 208,563	$ 208,708
Less current portion	(155,563)	(157,708)
Noncurrent portion of accrued compensated absences	$ 53,000	$ 51,000

The following is a summary of the changes in accrued compensated absences:

Accrued compensated absences at April 1, 2023	$ 232,274
Net change	(23,566)
Accrued compensated absences at March 31, 2024	208,708
Net change	(145)
Accrued compensated absences at March 31, 2025	$ 208,563

Note J - Pension Plan

Employees of the Hospital participate in the Lincoln County Hospital Employees' Pension Plan (the Plan), which is a defined contribution plan. The payroll for employees covered by the Plan for the years ended March 31, 2025 and 2024, was $2,478,071 and $2,389,702, respectively. Substantially all employees of the Hospital who are 21 years of age or older and work over 1,000 hours are eligible to participate in the Plan after one year of employment. Covered employees are required under the terms of the Plan to contribute 2.5 percent of the first $7,800 of covered compensation plus 5 percent of the covered compensation exceeding $7,800. Under the terms of the Plan, the Hospital contributes 4.5 percent of the first $7,800 of covered compensation, plus 9 percent of the covered compensation exceeding $7,800. Contributions to the Plan made by employees vest immediately, and contributions to the Plan made by the Hospital vest based upon the Plan's vesting schedule and the employee's years of service with the Hospital. The total cost of the Plan for the years ended March 31, 2025 and 2024, was $205,565 and $178,208, respectively.

Note K - Concentration of Credit Risk

The Hospital 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 is as follows:

	2025		2024	
Medicare	50.6	%	40.0	%
Medicaid	3.7		4.5	
Blue Cross	10.2		10.3	
Commercial insurance	13.5		22.0	
Self-pay	22.0		23.2	
	100.0	%	100.0	%

Note L - Risk Management

For the years ended March 31, 2025 and 2024, the Hospital 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. The Hospital 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 the Hospital 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. All coverage is on a claims-made basis. The above policies were renewed on April 1, 2025, for the policy period from April 1, 2025 to April 1, 2026.

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Hospital 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. The Hospital purchases commercial insurance for these risks. Settled claims have not exceeded this commercial coverage in any of the past three years.

Note M - Related-party Transactions

Lincoln County levies and collects property taxes for the benefit of the Hospital. The Hospital received $494,950 and $506,500 in tax appropriations from Lincoln County in 2025 and 2024, respectively.

Note N - Adoption of New Accounting Standard

The Hospital adopted GASB Statement No. 101, *Compensated Absences* (GASB 101) as of April 1, 2024. The following changes were made to the March 31, 2024 financial statements in adoption of GASB 101:

	Amount as previously reported	Change in accounting principle	Amount as restated
Statement of Net Position			
Liabilities and net position			
Accrued compensated absences	$ 121,708	$ 36,000	$ 157,708
Total current liabilities	1,027,459	36,000	1,063,459
Accrued compensated absences, net of current portion		51,000	51,000
Total long-term liabilities	3,446,502	51,000	3,497,502
Total liabilities	4,473,961	87,000	4,560,961
Unrestricted net position	2,588,715	(87,000)	2,501,715
Total net position	1,754,356	(87,000)	1,667,356
Statement of Revenues, Expenses, and Changes in Net Position			
Operating expenses			
Salaries and wages	$ 2,972,792	$ (11,000)	$ 2,961,792
Total operating expenses	8,206,677	(11,000)	8,195,677
Operating loss	(1,137,405)	11,000	(1,126,405)
Excess of expenses over revenues before capital grants and contributions	(680,314)	11,000	(669,314)
Change in net position	(595,817)	11,000	(584,817)
Statement of Cash Flows			
Reconciliation of operating loss to net cash provided (used) by operating activities			
Operating loss	$(1,137,405)	$ 11,000	$(1,126,405)
Changes in			
Accounts payable and accrued expenses	50,278	(11,000)	39,278

Supplementary Information

Lincoln County Hospital
Patient Service Revenue
Years ended March 31, 2025 and 2024

	2025			2024
	Inpatient	Outpatient	Total	Total
Routine services				
Adults and pediatrics	$ 942,791	$ -	$ 942,791	$ 1,024,100
Ancillary services				
Operating room				
Radiology, ultrasound, nuclear medicine and mammography	26,687	334,908	361,595	368,278
CT scan and MRI	32,330	593,070	625,400	679,283
Laboratory and blood	150,377	1,179,056	1,329,433	1,170,336
Physical therapy	44,205	333,039	377,244	357,187
Occupational therapy	49,266	161,732	210,998	234,109
Speech therapy	2,296	5,897	8,193	12,480
Electrocardiology	7,191	82,697	89,888	67,895
Medical supplies	62,436	24,435	86,871	63,923
Pharmacy	101,237	384,812	486,049	293,840
Emergency room	3,140	603,794	606,934	510,562
Treatment room		103,710	103,710	78,133
Observation care		62,893	62,893	42,785
Clinic and physician		698,584	698,584	644,338
	479,165	4,568,627	5,047,792	4,523,149
	$ 1,421,956	$ 4,568,627	5,990,583	5,547,249
Less				
Contractual adjustments			1,327,563	1,215,471
Charity care			(15,385)	(12,132)
Administrative discounts			(34,093)	(15,664)
Provision for bad debts			(224,253)	(189,683)
Net patient service revenue			$ 7,044,415	$ 6,545,241

Lincoln County Hospital
Operating Expenses by Functional Division
Years ended March 31, 2025 and 2024

	2025			2024		
	Salaries	Supplies and other, employee benefits, and depreciation	Total	Salaries	Supplies and other, employee benefits, and depreciation	Total
Routine services						
Adults and pediatrics	$ 690,447	$ 767,365	$ 1,457,812	$ 657,251	$ 1,036,749	$ 1,694,000
Ancillary services						
Radiology, ultrasound, nuclear medicine, echocardiography, and mammography	227,679	128,136	355,815	261,114	132,799	393,913
CT scan and MRI	1,125	73,466	74,591	4,520	77,128	81,648
Laboratory and blood	213,566	327,349	540,915	135,215	443,511	578,726
Physical therapy		180,895	180,895		170,914	170,914
Occupational therapy		101,149	101,149		105,344	105,344
Speech therapy		14,585	14,585		18,398	18,398
Medical supplies	38,210	56,252	94,462	38,932	48,598	87,530
Pharmacy	21,859	328,475	350,334	18,382	141,005	159,387
340B drug program		352,123	352,123		363,436	363,436
Emergency room	361,206	419,832	781,038	354,445	397,420	751,865
Clinic and physician	426,269	272,048	698,317	400,784	287,650	688,434
Other	6,780		6,780	4,801		4,801
	1,296,694	2,254,310	3,551,004	1,218,193	2,186,203	3,404,396
General services						
Administration and general	69,617	363,073	432,690	24,651	327,100	351,751
Accounting	349,734	466,491	816,225	341,406	473,654	815,060
Plant operations and maintenance	78,357	276,510	354,867	83,753	256,919	340,672
Laundry	35,646	26,930	62,576	31,972	22,340	54,312
Housekeeping	70,481	45,087	115,568	65,565	39,830	105,395
Dietary	176,713	153,457	330,170	180,781	143,456	324,237
Nursing administration	40,602	4,042	44,644	68,250	20,211	88,461
Medical records	71,937	75,336	147,273	107,153	79,229	186,382
Education and activities	52,813	19,578	72,391	43,541	22,960	66,501
Patient care coordination	146,644	65,143	211,787	139,276	56,925	196,201
Employee benefits - other		15,057	15,057		7,332	7,332
Depreciation and amortization		564,843	564,843		560,977	560,977
	1,092,544	2,075,547	3,168,091	1,086,348	2,010,933	3,097,281
	$ 3,079,685	$ 5,097,222	$ 8,176,907	$ 2,961,792	$ 5,233,885	$ 8,195,677