Independent Auditor's Report and Financial Statements

Lincoln County Hospital

March 31, 2026 and 2025

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Lincoln County Hospital
Management's Discussion and Analysis
Years ended March 31, 2026 and 2025

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, 2026 and 2025. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The Hospital reported an operating loss of $556,110 in 2026, $585,368 in 2025, and $1,126,405 in 2024. After consideration of tax appropriations and other nonoperating revenues and expenses and capital contributions, the Hospital's net position increased by $489,411 in 2026 and decreased by $65,943 in 2025.

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

	2026	2025	2024
Assets			
Current assets	$3,604,131	$3,071,217	$3,050,039
Capital assets, net	1,746,131	2,147,178	2,621,508
Other noncurrent assets	483,714	458,788	440,829
Total assets	5,833,976	5,677,183	6,112,376
Deferred outflows of resources on advance refunding	80,371	97,431	115,941
Liabilities			
Current liabilities	1,048,697	1,040,319	1,063,459
Noncurrent liabilities	2,774,826	3,132,882	3,497,502
Total liabilities	3,823,523	4,173,201	4,560,961
Total net position	$2,090,824	$1,601,413	$1,667,356

Our ratio of current assets to current liabilities was 3.4, 3.0, and 2.9 for 2026, 2025, and 2024, 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 $94,968, $90,513, and $167,636 during 2026, 2025, and 2024, respectively. The remaining change in capital assets, net, results from the normal annual depreciation and amortization provisions of $496,015, $564,843, and $560,977 during 2026, 2025, and 2024, 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 $24,926 and $17,999 in 2026 and 2025, respectively. 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 2026, the Hospital's net position increased by $489,411. This change is made up of different components as displayed below in Table 2.

Table 2: Operating Results and Changes in Net Position

	2026	2025	2024
Operating revenues			
Net patient service revenue	$7,204,442	$7,044,415	$6,545,241
Other operating revenue	656,906	547,124	524,031
Total operating revenues	7,861,348	7,591,539	7,069,272
Operating expenses			
Salaries and benefits	4,181,225	3,953,813	3,798,839
Supplies and other	3,740,218	3,658,251	3,835,861
Depreciation and amortization	496,015	564,843	560,977
Total operating expenses	8,417,458	8,176,907	8,195,677
Operating loss	(556,110)	(585,368)	(1,126,405)
Nonoperating revenues net of expenses and contributions for capital	1,045,521	519,425	541,588
Change in net position	$ 489,411	$ (65,943)	$ (584,817)

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 2026, the Hospital's operating loss decreased by $29,258 in comparison to 2025, while in 2025 the operating loss decreased by $541,037 in comparison to 2024. The Hospital's net patient service revenue in 2026 increased by 2.3 percent and in 2025 increased by 7.6 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 2.9 percent increase in operating expenses during 2026, and a 0.2 percent decrease in 2025.

The Hospital received 76 percent of its net patient revenue from the Medicare program in 2026 and 2025, 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 $227,412 or 5.8 percent in 2026, and increased by $154,974 or 4.1 percent in 2025, 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 45 FTEs during 2026, an increase of 2 FTEs from 2025. FTEs for 2025 decreased by 2 from 2024. FTEs increased in 2026 due to the utilization of staff instead of contract labor to provide coverage. Salaries, wages, and employee benefits represent 58.0 percent, 56.1 percent, and 58.0 percent of total net patient service revenue in 2026, 2025, and 2024, respectively. Employee benefits as a percentage of salary and wage expense were 30.3 percent in 2026, 28.4 percent in 2025, and 28.3 percent in 2024.

Supplies and other expenses increased by $81,967 in 2026, decreased by $177,610 in 2025, and decreased by $99,658 in 2024.

Nonoperating revenues (expenses) include an annual tax appropriation from Lincoln County, noncapital grants and contributions, interest expense, employee retention credits 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 $8,750 in 2026. The Hospital received notification during 2026 that its application for employee retention credits was approved and recognized $516,884 related to these credits.

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 the business-type activities of Lincoln County Hospital (the Hospital), as of and for the years ended March 31, 2026 and 2025, 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, 2026 and 2025, 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 audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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. 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.

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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.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
July 22, 2026

Financial Statements

Lincoln County Hospital
Statements of Net Position
March 31, 2026 and 2025

Assets and Deferred Outflows of Resources

	2026	2025
Current assets		
Cash	$1,758,387	$2,059,995
Assets limited as to use	74,862	65,562
Accounts receivable, net of allowance for uncollectible accounts of $124,746 in 2026 and $114,201 in 2025	746,491	699,517
Other receivables	57,189	120,040
Employee retention credit receivable	516,884	
Inventories	101,000	101,103
Estimated third-party payor settlements	349,318	25,000
Total current assets	3,604,131	3,071,217
Assets limited as to use		
By Board of Trustees		
For operations	22,861	16,318
For debt service reserve	404,963	388,772
For capital assets	55,890	53,698
By Public Building Commission	74,862	65,562
	558,576	524,350
Less amounts required to meet current obligations	74,862	65,562
	483,714	458,788
Capital assets		
Capital assets not being depreciated	19,725	75,176
Capital assets, net of accumulated depreciation	1,605,071	1,877,693
Leased assets, net of accumulated amortization	121,335	194,309
Capital assets, net	1,746,131	2,147,178
Total assets	5,833,976	5,677,183
Deferred outflows of resources		
Deferred outflows on advance refunding	80,371	97,431
Total assets and deferred outflows of resources	$5,914,347	$5,774,614

The accompanying notes are an integral part of these statements.

Liabilities and Net Position

	2026	2025
Current liabilities		
Current maturities of long-term obligations	$ 280,000	$ 270,000
Current maturities of lease liabilities	58,119	79,330
Accounts payable and other accrued liabilities	77,183	126,930
Salaries payable	206,299	179,661
Payroll taxes payable	95,646	85,952
Accrued compensated absences	185,469	155,563
Other accrued benefits	38,793	35,020
Interest payable	7,188	7,863
Estimated third-party payor settlements	100,000	100,000
Total current liabilities	1,048,697	1,040,319
Long-term liabilities		
Long-term obligations, less current maturities	2,670,077	2,966,014
Lease liabilities, less current maturities	55,749	113,868
Accrued compensated absences, net of current portion	49,000	53,000
Total long-term liabilities	2,774,826	3,132,882
Total liabilities	3,823,523	4,173,201
Net position		
Invested in capital assets net of related debt	(1,237,443)	(1,184,602)
Restricted for debt service	74,862	65,562
Restricted for component unit	26,943	
Unrestricted	3,226,462	2,720,453
Total net position	2,090,824	1,601,413
Total liabilities and net position	$5,914,347	$5,774,614

Lincoln County Hospital
Statements of Revenues, Expenses, and Changes in Net Position
Years ended March 31, 2026 and 2025

	2026	2025
Operating revenues		
Net patient service revenue	$ 7,204,442	$ 7,044,415
Other	656,906	547,124
Total operating revenues	7,861,348	7,591,539
Operating expenses		
Salaries and wages	3,208,328	3,079,685
Employee benefits	972,897	874,128
Supplies and other	3,740,218	3,658,251
Depreciation and amortization	496,015	564,843
Total operating expenses	8,417,458	8,176,907
Operating loss	(556,110)	(585,368)
Nonoperating revenues (expenses)		
Tax appropriations	486,200	494,950
Investment income	98,506	98,206
Interest expense	(105,110)	(118,275)
Employee retention credits	516,884	
Noncapital grants and contributions	49,041	13,067
Gain on disposal of assets		1,000
Total nonoperating revenues	1,045,521	488,948
Excess of revenues over (under) expenses before capital grants and contributions	489,411	(96,420)
Capital grants and contributions		30,477
Change in net position	489,411	(65,943)
Net position beginning of year	1,601,413	1,667,356
Net position end of year	$ 2,090,824	$ 1,601,413

The accompanying notes are an integral part of these statements.

Lincoln County Hospital
Statements of Cash Flows
Years ended March 31, 2026 and 2025

	2026	2025
Cash flows from operating activities		
Receipts from and on behalf of patients	$ 6,833,150	$ 7,386,557
Payments to or on behalf of employees	(4,115,214)	(3,937,372)
Payments for supplies and services	(3,789,862)	(3,626,497)
Other receipts and payments	719,757	474,337
Net cash provided (used) by operating activities	(352,169)	297,025
Cash flows from noncapital financing activities		
Tax appropriations	486,200	494,950
Noncapital grants and contributions	49,041	13,067
Net cash provided by noncapital financing activities	535,241	508,017
Cash flows from capital and related financing activities		
Purchase of capital assets	(94,968)	(90,513)
Proceeds from sale of capital assets		1,000
Capital grants and contributions		30,477
Principal paid on lease liabilities	(79,330)	(84,795)
Interest paid on lease liabilities	(10,312)	(15,417)
Principal paid on long-term debt obligations	(270,000)	(265,000)
Interest paid on long-term debt obligations	(94,350)	(102,300)
Net cash used by capital and related financing activities	(548,960)	(526,548)
Cash flows from investing activities		
Investment income received	98,506	98,206
Net cash provided by investing activities	98,506	98,206
Change in cash and cash equivalents	(267,382)	376,700
Cash and cash equivalents at beginning of year	2,584,345	2,207,645
Cash and cash equivalents at end of year	$ 2,316,963	$ 2,584,345
Reconciliation of cash and cash equivalents		
Cash	$ 1,758,387	$ 2,059,995
Assets limited as to use	558,576	524,350
	$ 2,316,963	$ 2,584,345

The accompanying notes are an integral part of these statements.

Lincoln County Hospital
Statements of Cash Flows - Continued
Years ended March 31, 2026 and 2025

	2026	2025
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	$ (556,110)	$ (585,368)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation and amortization	496,015	564,843
Provision for bad debts	253,475	224,253
Changes in		
Accounts receivable	(300,449)	(432,111)
Estimated third-party payor settlements	(324,318)	550,000
Other receivables	62,851	(72,787)
Inventories	103	68,208
Accounts payable and accrued expenses	16,264	(20,013)
Net cash provided (used) by operating activities	$ (352,169)	$ 297,025

The accompanying notes are an integral part of these statements.

Lincoln County Hospital
Notes to Financial Statements
March 31, 2026 and 2025

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.

The Lincoln County Medical Center Foundation, Inc. (Foundation), is a legally separate 501(c)(3) organization with the Hospital serving as the sole voting member. The Foundation is operated exclusively for charitable purposes with the primary purpose to support and benefit the mission, programs, and purpose of the Lincoln County Hospital. Effective April 1, 2025, the Hospital includes the Foundation as a component unit in the Hospital's financial statements using the blended method. All significant intercompany accounts and transactions have been eliminated in the accompanying financial statements.

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.

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

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.

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.

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

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.

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. 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

Note B - Net Patient Service Revenue - Continued

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, 2025.

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:

	2026	2025
Gross patient service revenue		
Inpatient	$1,302,195	$1,421,956
Outpatient	4,071,281	3,870,043
Physician services	236,645	234,846
Rural health clinic	474,271	463,738
	6,084,392	5,990,583
Third-party contractual adjustments	1,264,446	1,304,399
Provider assessment payments	124,681	23,164
Charity care	(13,255)	(15,385)
Other discounts and allowances	(2,347)	(34,093)
Provision for bad debts	(253,475)	(224,253)
Net patient service revenue	$7,204,442	$7,044,415

Revenue from the Medicare program accounted for approximately 76 percent of the Hospital's net patient service revenue during 2026 and 2025. 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 2026 and 2025 were $13,255 and $15,385, 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 $17,822 and $20,456 for 2026 and 2025, respectively.

Note C - Allowance for Uncollectible Accounts

The Hospital's allowance for uncollectible accounts on amounts due from patients was 70 percent and 76 percent of self-pay accounts receivable as of March 31, 2026 and 2025, respectively. The Hospital's net bad debt write-offs were $233,844 and $182,361, for the years ended March 31, 2026 and 2025, respectively. The Hospital did not change its charity care or uninsured discount policies during the years ended March 31, 2026 and 2025. 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, 2026, the carrying amount of the Hospital's bank deposits was $2,241,801 and the bank balances were $2,367,780. Of the bank balances, $526,943 was covered by federal depository insurance and $1,840,837 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:

	2026	2025
Board of Trustee funds	$ 483,714	$ 458,788
Under bond agreements	74,862	65,562
Total assets limited as to use	$ 558,576	$ 524,350

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, 2025	Transfers and additions	Retirements	Balance March 31, 2026
Capital assets not being depreciated				
Land	$ 19,725	$ -	$ -	$ 19,725
Projects in progress	55,451	(55,451)		
Total capital assets not being depreciated	75,176	(55,451)	-	19,725
Capital assets being depreciated				
Land improvements	193,089			193,089
Buildings	2,354,859	9,000		2,363,859
Fixed equipment	5,642,172	3,400		5,645,572
Movable equipment	3,108,354	138,019		3,246,373
Total capital assets being depreciated	11,298,474	150,419	-	11,448,893
Less accumulated depreciation				
Land improvements	187,029	2,676		189,705
Buildings	1,906,742	56,292		1,963,034
Fixed equipment	4,629,180	198,708		4,827,888
Movable equipment	2,697,830	165,365		2,863,195
Total accumulated depreciation	9,420,781	423,041	-	9,843,822
Total capital assets being depreciated, net	1,877,693	(272,622)	-	1,605,071
Leased assets being amortized				
Leased equipment	532,525			532,525
Less accumulated amortization				
Leased equipment	338,216	72,974		411,190
Total leased assets being amortized, net	194,309	(72,974)	-	121,335
Capital assets, net	$ 2,147,178	$ (401,047)	$ -	$ 1,746,131

Note F - Capital Assets - Continued

	Balance April 1, 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 G - Long-Term Obligations

Long-term obligations are summarized as follows:

	2026	2025
Lincoln County, Kansas Public Building Commission Refunding Revenue Bonds, Series 2016; interest rate of 3.0%; issued on October 6, 2016; in the original amount of $5,330,000; due serially through March 1, 2035	$ 2,875,000	$ 3,145,000
Add net unamortized premium of bonds	75,077	91,014
Less current maturities of long-term debt	(280,000)	(270,000)
Long-term debt, net of current maturities	$ 2,670,077	$ 2,966,014

Note G - Long-Term Obligations - Continued

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

Outstanding at April 1, 2024	$ 3,410,000
Principal payments	(265,000)
Outstanding at March 31, 2025	3,145,000
Principal payments	(270,000)
Outstanding at March 31, 2026	$ 2,875,000

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.

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

	Principal	Interest	Total
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	320,000	50,700	370,700
2032-2035	1,370,000	104,550	1,474,550
	$ 2,875,000	$ 448,500	$ 3,323,500

Note G - Long-Term Obligations - Continued

Total interest costs are summarized as follows:

	2026	2025
Interest incurred	$ 103,986	$ 117,056
Amortization of bond premium	(15,936)	(17,291)
Amortization of deferred outflows on advanced refunding	17,060	18,510
Interest expense	$ 105,110	$ 118,275

Note H - Lease Liabilities

Lease liabilities are summarized as follows:

	2026	2025
Equipment lease liability; interest rate of 10.5%; payable in monthly installments of $802 through December 2027	$ 15,327	$ 22,906
Equipment lease liability; interest rate of 6.0%; payable in monthly installments of $2,572 through November 2028	75,882	101,358
Equipment lease liability; interest rate of 6.0%; payable in monthly installments of $1,400 through July 2026	4,159	20,184
Equipment lease liability; interest rate of 6.0%; payable in monthly installments of $2,696 through November 2026	18,500	48,750
	113,868	193,198
Less current maturities of leased liabilities	(58,119)	(79,330)
Leased liabilities, net of current maturities	$ 55,749	$ 113,868

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

Outstanding at April 1, 2024	$ 277,993
Principal payments	(84,795)
Outstanding at March 31, 2025	193,198
Principal payments	(79,330)
Outstanding at March 31, 2026	$ 113,868

Note H - Lease Liabilities - Continued

Scheduled annual lease liability payments are as follows:

	Principal	Interest	Total
2027	$ 58,119	$ 5,442	$ 63,561
2028	35,628	2,455	38,083
2029	20,121	455	20,576
	$ 113,868	$ 8,352	$ 122,220

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:

	2026	2025
Estimated accrued compensated absences and taxes	$ 234,469	$ 208,563
Current portion of estimated accrued compensated absences and taxes	(185,469)	(155,563)
Noncurrent portion of accrued compensated absences and taxes	$ 49,000	$ 53,000

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

Accrued compensated absences and taxes at April 1, 2024	$ 208,708
Change in accrued compensated absences liabilities and taxes	(145)
Accrued compensated absences and taxes at March 31, 2025	208,563
Change in accrued compensated absences liabilities and taxes	25,906
Accrued compensated absences and taxes at March 31, 2026	$ 234,469

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, 2026 and 2025, was $2,542,259 and $2,478,071, 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, 2026 and 2025, was $200,527 and $205,565, 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:

	2026		2025	
Medicare	45.3	%	50.6	%
Medicaid	4.1		3.7	
Blue Cross	9.5		10.2	
Commercial insurance	18.3		13.5	
Self-pay	22.8		22.0	
	100.0	%	100.0	%

Note L - Risk Management

For the years ended March 31, 2026 and 2025, 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, 2026, for the policy period from April 1, 2026 to April 1, 2027.

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 $486,200 and $494,950 in tax appropriations from Lincoln County in 2026 and 2025, respectively.

Note N - Employee Retention Credits

The Coronovirus Aid, Relief, and Economic Security Act (CARES Act) provided an employee retention credit (the credit or ERC) which is a refundable tax credit against certain employment taxes of up to $5,000 per employee for eligible employers. The credit is equal to 50 percent of qualified wages paid to employees, capped at $10,000 of qualified wages through December 1, 2020. The Consolidated Appropriations Act of 2021 and the American Rescue Plan Act of 2021 expanded the availability of the credit, extending the credit through September 30, 2021, and increased the credit to 70 percent of the qualified wages, capped at $7,000 per quarter. As a result of the changes to the credit, the maximum credit per employee increased to $5,000 in 2020 and $21,000 in 2021. During the year ended March 31, 2026, the Hospital recorded $381,744 in credits and $135,140 in interest related to credits, for a total of $516,884 which is presented in the statement of revenues, expenses and changes in net position as nonoperating revenue.

Laws and regulations governing the ERC program are extremely complex and subject to interpretation. The ERC program may be subject to audit by the Internal Revenue Service at a later date and there is risk that the recorded amounts count change by a material amount in the future periods due to an adverse audit.

Note O - Condensed Combining Information

Condensed financial data for the Hospital and its blended component unit as of and for the year ended March 31, 2026, are presented in the following tables:

	Statement of Net Position - 2026			
	Hospital	Foundation	Eliminations	Blended
Assets				
Current assets	$3,577,188	$ 26,943	$ -	$3,604,131
Noncurrent assets	483,714			483,714
Capital assets	1,746,131			1,746,131
Total assets	5,807,033	26,943	-	5,833,976
Deferred outflow of resources	80,371			80,371
Total assets and deferred outflows of resources	$5,887,404	$ 26,943	$ -	$5,914,347
Liabilities				
Current liabilities	$1,048,697	$ -	$ -	$1,048,697
Noncurrent liabilities	2,774,826			2,774,826
Total liabilities	3,823,523	-	-	3,823,523
Net position				
Invested in capital assets net of related debt	(1,237,443)			(1,237,443)
Restricted for debt service	74,862			74,862
Restricted for component unit		26,943		26,943
Unrestricted	3,226,462			3,226,462
Total net position	2,063,881	26,943	-	2,090,824
Total liabilities and net position	$5,887,404	$ 26,943	$ -	$5,914,347

Note O - Condensed Combining Information - Continued

	Statement of Revenues, Expenses, and Changes in Net Position - 2026			
	Hospital	Foundation	Eliminations	Blended
Operating revenues				
Net patient service revenue	$7,204,442	$ -	$ -	$7,204,442
Other	656,906			656,906
Total operating revenues	7,861,348	-	-	7,861,348
Operating expenses				
Salaries and wages	3,208,328			3,208,328
Employee benefits	972,897			972,897
Supplies and other	3,740,218			3,740,218
Depreciation and amortization	496,015			496,015
Total operating expenses	8,417,458	-	-	8,417,458
Operating loss	(556,110)	-	-	(556,110)
Nonoperating revenues (expenses)				
Tax appropriations	486,200			486,200
Investment income	98,355	151		98,506
Interest expense	(105,110)			(105,110)
Employee retention credits	516,884			516,884
Noncapital grants and contributions	22,249	26,792		49,041
Total nonoperating revenues	1,018,578	26,943	-	1,045,521
Excess of revenues over expenses before capital grants and contributions	462,468	26,943	-	489,411
Capital grants and contributions				
Change in net position		26,943	-	489,411
Net position beginning of year	1,601,413			1,601,413
Net position end of year	$1,601,413	$ 26,943	$ -	$2,090,824

	Statement of Cash Flows - 2026			
	Hospital	Foundation	Eliminations	Blended
Net cash provided (used) by				
Operating activities	$ (352,169)	$ -	$ -	$ (352,169)
Noncapital financing activities	508,449	26,792		535,241
Capital and related financing activities	(548,960)			(548,960)
Investing activities	98,355	151		98,506
Net change in cash and cash equivalents	(294,325)	26,943	-	(267,382)
Cash and cash equivalents at beginning of year	2,584,345			2,584,345
Cash and cash equivalents at end of year	$2,290,020	$ 26,943	$ -	$2,316,963

Supplementary Information

Lincoln County Hospital
Patient Service Revenue
Years ended March 31, 2026 and 2025

	2026			2025
	Inpatient	Outpatient	Total	Total
Routine services				
Adults and pediatrics	$ 867,870	$ -	$ 867,870	$ 942,791
Ancillary services				
Operating room				
Radiology, ultrasound, nuclear medicine and mammography	24,918	336,373	361,291	361,595
CT scan and MRI	44,076	545,291	589,367	625,400
Laboratory and blood	140,126	1,292,086	1,432,212	1,329,433
Physical therapy	35,187	327,557	362,744	377,244
Occupational therapy	35,131	197,239	232,370	210,998
Speech therapy	466	4,719	5,185	8,193
Electrocardiology	4,195	71,710	75,905	89,888
Medical supplies	39,756	35,084	74,840	86,871
Pharmacy	110,470	531,500	641,970	486,049
Emergency room		596,527	596,527	606,934
Treatment room		108,258	108,258	103,710
Observation care		24,937	24,937	62,893
Clinic and physician		710,916	710,916	698,584
	434,325	4,782,197	5,216,522	5,047,792
	$ 1,302,195	$ 4,782,197	6,084,392	5,990,583
Less				
Contractual adjustments			1,389,127	1,327,563
Charity care			(13,255)	(15,385)
Administrative discounts			(2,347)	(34,093)
Provision for bad debts			(253,475)	(224,253)
Net patient service revenue			$ 7,204,442	$ 7,044,415

Lincoln County Hospital
Operating Expenses by Functional Division
Years ended March 31, 2026 and 2025

	2026			2025		
	Salaries	Supplies and other, employee benefits, and depreciation	Total	Salaries	Supplies and other, employee benefits, and depreciation	Total
Routine services						
Adults and pediatrics	$ 786,310	$ 567,894	$ 1,354,204	$ 690,447	$ 767,365	$ 1,457,812
Ancillary services						
Radiology, ultrasound, nuclear medicine, echocardiography, and mammography	126,429	366,764	493,193	227,679	128,136	355,815
CT scan and MRI		71,296	71,296	1,125	73,466	74,591
Laboratory and blood	211,789	323,178	534,967	213,566	327,349	540,915
Physical therapy		180,851	180,851		180,895	180,895
Occupational therapy		105,726	105,726		101,149	101,149
Speech therapy		10,988	10,988		14,585	14,585
Medical supplies	37,980	70,013	107,993	38,210	56,252	94,462
Pharmacy	22,651	314,373	337,024	21,859	328,475	350,334
340B drug program		353,620	353,620		352,123	352,123
Emergency room	383,698	440,075	823,773	361,206	419,832	781,038
Clinic and physician	451,327	253,113	704,440	426,269	272,048	698,317
Other	8,275		8,275	6,780		6,780
	1,242,149	2,489,997	3,732,146	1,296,694	2,254,310	3,551,004
General services						
Administration and general	78,451	460,006	538,457	67,711	363,073	430,784
Accounting	352,979	473,577	826,556	349,734	466,491	816,225
Plant operations and maintenance	87,575	279,591	367,166	78,357	276,510	354,867
Laundry	34,507	29,245	63,752	35,646	26,930	62,576
Housekeeping	83,379	53,708	137,087	70,481	45,087	115,568
Dietary	169,658	160,155	329,813	176,713	153,457	330,170
Nursing administration	63,122	6,664	69,786	40,602	4,042	44,644
Medical records	91,401	83,332	174,733	71,937	75,336	147,273
Education and infection control	96,107	31,039	127,146	54,719	19,578	74,297
Patient care coordination	122,690	55,664	178,354	146,644	65,143	211,787
Employee benefits - other		22,243	22,243		15,057	15,057
Depreciation and amortization		496,015	496,015		564,843	564,843
	1,179,869	2,151,239	3,331,108	1,092,544	2,075,547	3,168,091
	$ 3,208,328	$ 5,209,130	$ 8,417,458	$ 3,079,685	$ 5,097,222	$ 8,176,907