Independent Auditor's Report and Financial Statements

Neosho Memorial Regional Medical Center

December 31, 2025 and 2024

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Neosho Memorial Regional Medical Center
Management's Discussion and Analysis
Years ended December 31, 2025 and 2024

Our discussion and analysis of the financial performance of Neosho Memorial Regional Medical Center provides a narrative overview of the Medical Center's financial activities for the years ended December 31, 2025 and 2024. Please read it in conjunction with the accompanying financial statements.

Financial highlights

The Medical Center's net position decreased by $570,538, or 1.7 percent, and $4,605,458, or 12.3 percent, in 2025 and2024, respectively.

The Medical Center reported operating losses of $3,142,965, $7,154,758, and $5,969,294 in 2025, 2024, and 2023, respectively.

Using these financial statements

The Medical Center'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 and resources of the Medical Center, The Foundation of Neosho Memorial Regional Medical Center, and the Green Living Foundation, Inc., component units of the Medical Center.

One of the most important questions asked about the Medical Center's finances is, "Is the Medical Center 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 Medical Center'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 Medical Center's net position and changes in them. The Medical Center'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 Medical Center's net position is 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 Medical Center'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 Medical Center.

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

Assets, liabilities, and net position

Table 1 below summarizes the Medical Center's statements of net position for the latest three calendar years.

Table 1: Assets, Liabilities, and Net Position

	2025	2024	2023
Assets			
Current assets	$ 29,041,863	$ 27,237,549	$ 30,133,206
Capital assets, net	30,585,504	33,193,981	36,998,718
Other noncurrent assets	352,766	271,527	1,227,507
Total assets	59,980,133	60,703,057	68,359,431
Current liabilities	8,769,419	8,183,782	24,230,370
Long-term liabilities	17,255,489	18,683,927	6,208,440
Total liabilities	26,024,908	26,867,709	30,438,810
Deferred inflows of resources	1,682,409	991,974	471,789
Total net position	$ 32,272,816	$ 32,843,374	$ 37,448,832

Cash and accounts receivable are the two most significant components of current assets. Total days cash expenses on hand is 76 days in 2025**,** as compared to 68 days in 2024, and 86 days in 2023. The Medical Center reported cash flows from operations of $4,792,532 in 2025 compared to cash used from operations of $1,690,841 in 2024 which is shown in the statement of cash flows. Cash is affected by the change in net position of the Medical Center along with the timing of collection of accounts receivable and other changes in balance sheet accounts. Net accounts receivable at December 31, 2025, 2024, and 2023, were $8,045,242, $8,962,317, and $9,074,851 representing 49, 60, and 59 days of net patient service revenue in net accounts receivable. Assets limited as to use designated for capital acquisitions decreased by $2,507 in 2025 as compared with 2024, and decreased by $84,641 between 2024 and 2023. The accompanying cash flow statement provides additional details as to the change in cash balances for 2025 and 2024.

The Medical Center's additions to capital assets, including lease and subscription assets, were $2,479,320 in 2025, as compared with $1,476,180 in 2024, and $9,034,934 in 2023. Net capital assets are also impacted by annual depreciation provisions.

The Medical Center was in compliance with the days cash on hand and debt service coverage ratio covenants, which are defined in the Medical Center's bond indentures, in 2025. The Medical Center was not in compliance with the days cash on hand and debt service coverage ratio covenants in 2024. The Medical Center was in compliance with the days cash on hand ratio but was not in compliance with the debt service coverage ratio in 2023.

Net position, or equity, decreased by 13.8 percent from 2023 to 2025. This change is discussed below in more detail.

Operating results and changes in net position

The Medical Center's net position decreased by $(570,558) or 1.7 percent in 2025, and decreased by $4,605,458 or 12.3 percent in 2024, as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	2025	2024	2023
Operating revenues			
Net patient service revenue	$ 60,110,832	$ 54,949,561	$ 56,090,350
Other operating revenue	1,318,167	1,204,053	799,009
Total operating revenues	61,428,999	56,153,614	56,889,359
Operating expenses			
Salaries and benefits	34,778,857	35,206,086	35,647,586
Supplies and other	24,707,820	22,821,369	22,161,303
Depreciation and amortization	5,085,287	5,280,917	5,049,764
Total operating expenses	64,571,964	63,308,372	62,858,653
Operating loss	(3,142,965)	(7,154,758)	(5,969,294)
Nonoperating revenues	2,572,407	2,468,459	2,448,069
Capital grants and contributions		80,841	5,906,265
Change in net position	$ (570,558)	$ (4,605,458)	$ 2,385,040

The first component of the overall change in the Medical Center's net position is its operating loss - generally the difference between net patient service revenues and other operating revenues and the expenses incurred to perform those services. The Medical Center's operating loss was $3,142,965 in 2025, as compared to an operating loss of $7,154,758 in 2024 and $5,969,294 in 2023.

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, and other special payments. Net patient service revenue is also affected by changes in expenses, as a significant portion of the revenues are associated with services provided to Medicare beneficiaries whose services are reimbursed based on cost reimbursement principles.

The Medical Center's net patient service revenues increased by 9.4 percent in 2025, as compared to a 2.0 percent decrease in 2024. Our outpatient service revenues as a percentage of total revenues increased during 2025, 2024, and 2023. In 2025, we experienced a decrease in inpatient routine, ICU, and swing-bed days of 5 days or 0.2 percent. In 2024, we experienced a decrease in inpatient routine, ICU, and swing-bed days of 821 days or 20.5 percent. As a critical access hospital, we are limited to having 25 inpatients admitted to our Medical Center at any one time.

The Medical Center generated 32 and 34 percent of its net revenue in 2025 and 2024, respectively, from the Medicare program. Medicare Advantage plans accounted for 12 and 15 percent of net revenue in 2025 and 2024, respectively. The Medicaid program generated 13 percent of net revenue in 2025 and 2024.

The Medical Center also meets the eligibility requirements for the State of Kansas Medicaid DSH program which awards payments to hospitals based on the level of uncompensated care provided by hospitals to uninsured or Medicaid patients. The payments through Medicaid DSH are disbursed quarterly to the Medical Center. Net patient service revenues recognized from this program were $1,559,464, $2,204,985, and $1,667,360 in 2025, 2024, and 2023, respectively. In addition, the Medical Center receives provider assessment payments from the State of Kansas Medicaid program. Net patient service revenues recognized from this program were $2,736,352, $1,196,097, and $1,147,659 in 2025, 2024, and 2023, respectively.

Other significant items affecting net patient service revenues are the level of indigent care and bad debts incurred by the Medical Center. These amounts are deducted from gross revenues along with third-party contractual adjustments to arrive at net patient service revenues. We are focused on identifying indigent care which requires additional resources to document eligibility under the Medical Center's policies. For the years ended 2025, 2024, and 2023, the Medical Center's indigent care and provision for bad debts were $9,083,400, $11,174,079, and $11,548,326. These amounts represent 5.6, 7.2, and 7.2 percent of gross patient service revenues for the respective years ended 2025, 2024, and 2023. These percentages are affected by the level of uninsured or underinsured patients seeking care in our facility. The Medical Center experienced an increase in denials and write-offs due to various billing issues in 2024. These write-offs decreased in 2025 as we focused more attention on the billing cycle. Other discounts and allowances for 2025, 2024, and 2023 were $2,388,080, $3,171,297, and $1,073,073 representing 1.5, 2.1, and 0.8 of a percent of gross revenues.

Employee salaries and wages increased by $334,828 or 1.2 percent, and $121,475 or 0.4 percent during 2025 and 2024, respectively. There was a slight reduction in FTEs from 2025 to 2024, and 2024 to 2023, the small increase in salaries over this time is primarily driven by wage increases. The Medical Center employed an average of 353, 360, and 371 FTEs during 2025, 2024, and 2023, respectively.

Employee benefit costs as a percentage of salary and wage expense were 20.0 percent, 22.9 percent, and 25.0 percent in 2025, 2024, and 2023, respectively. The changes in the employee benefits percentage are due primarily to the change in the cost of providing health insurance coverage for our employees.

Supplies and other expenses increased by $1,886,451 in 2025, after increasing by $660,066 in 2024, and increasing by $194,259 in 2023. During 2025, the Medical Center incurred additional expenses related to outsourcing some of its patient billing functions and also incurred additional costs for contract labor and hospitalist coverage.

Depreciation and interest expenses combined decreased by $264,285 in 2025 and increased by $155,067 in 2024.

Nonoperating revenues in 2024 and 2023 include $134,887 and $5,262,002, respectively, in grant revenues that were recognized from the CARES Act. These funds were provided by the federal and state governments to assist with the impact of the coronavirus pandemic. The Medical Center is also the recipient of other federal awards which include reimbursement for both capital and noncapital purposes. Another significant amount included in nonoperating revenues is the ambulance subsidy that the Medical Center receives from a sales tax. This subsidy is used to offset the unreimbursed costs associated with operating the ambulance service for the County.

This financial report is designed to provide a general overview of the Medical Center'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 Neosho Memorial Regional Medical Center, 629 S. Plummer, Chanute, Kansas 66720.

Wendling Noe Nelson & Johnson LLC

Certified Public Accountants and Business Advisors

Ashley R. Davis, CPA
Heather R. Eichem, CPA
Brian J. Florea, CPA
Eric L. Otting, CPA
Cameron L. Werth, CPA

Adam C. Crouch, CPA
Tyler R. Crow, CPA
Connie J. Holthaus, CPA
Stephanie D. Kennedy, CPA
Kyle J. Meyer, CPA
Abby J. Noll, CPA
Lucas C. Palenske, CPA

Independent Auditor's Report

Board of Trustees
Neosho Memorial Regional Medical Center

Opinion

We have audited the accompanying financial statements of the business-type activities of Neosho Memorial Regional Medical Center (the Medical Center) as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Medical Center's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the Medical Center as of December 31, 2025 and 2024, and the respective changes in financial position, and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our 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 Medical Center and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of 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 Medical Center'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.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

623 SW 10th Avenue, Suite 300, Topeka, Kansas 66612-1679 · (785)233-4226 · (888)272-9665 · FAX: (785)233-6830
www.wnnjcpa.com · EMAIL: wnnj@wnnjcpa.com

- 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 Medical Center's internal control. Accordingly, no such opinion is expressed.

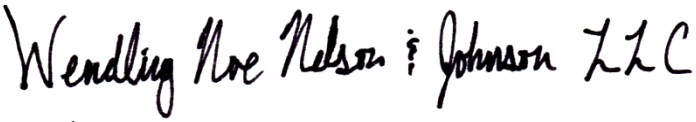
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Medical Center'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 audits, 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.



Topeka, Kansas
March 30, 2026

Financial Statements

Neosho Memorial Regional Medical Center
Statements of Net Position
December 31, 2025 and 2024

Assets

	2025	2024
Current assets		
Cash and cash equivalents	$ 12,881,303	$ 10,752,828
Investments	251,808	209,563
Assets limited as to use	978,892	913,823
Patient accounts receivable, net of estimated uncollectibles of $6,547,243 in 2025 and $6,946,328 in 2024	8,045,242	8,962,317
Inventories	1,103,077	1,153,919
Prepaid expenses	1,190,361	1,013,006
Other receivables	3,270,982	2,730,326
Estimated third-party payor settlements	1,320,198	1,501,767
Total current assets	29,041,863	27,237,549
Assets limited as to use		
Internally designated for capital acquisition	34,177	36,684
Under bond indenture agreements - held by trustee	978,892	913,823
Other restricted cash	318,589	234,843
	1,331,658	1,185,350
Less amount required to meet current obligations	978,892	913,823
	352,766	271,527
Capital assets		
Capital assets not being depreciated	1,792,612	1,490,927
Depreciable capital assets, net of accumulated depreciation	26,713,488	28,498,993
Leased assets, net of accumulated amortization	294,337	843,050
Subscription assets, net of accumulated amortization	1,785,067	2,361,011
Total capital assets	30,585,504	33,193,981
Total assets	$ 59,980,133	$ 60,703,057

The accompanying notes are an integral part of these statements.

Liabilities, Deferred Inflows of Resources, and Net Position

	2025	2024
Current liabilities		
Current maturities of long-term debt	$ 2,110,000	$ 2,075,000
Current maturities of lease liabilities	235,189	333,850
Current maturities of subscription liabilities	543,138	561,097
Accounts payable and accrued expenses	1,715,755	1,523,325
Salaries, wages, and payroll taxes payable	1,053,245	960,568
Accrued compensated absences	2,358,939	2,365,990
Estimated health insurance claims payable	317,347	201,716
Interest payable	92,283	104,042
Estimated third-party payor settlements	343,523	58,194
Total current liabilities	8,769,419	8,183,782
Long-term liabilities		
Long-term debt, net of current maturities	11,175,000	13,285,000
Lease liabilities, net of current maturities	76,263	201,943
Subscription liabilities, net of current maturities	1,403,904	1,947,042
Accrued compensated absences, net of current portion	1,139,000	1,172,000
Refundable and nonrefundable fees	3,461,322	2,077,942
Total long-term liabilities	17,255,489	18,683,927
Total liabilities	26,024,908	26,867,709
Deferred inflows of resources		
Deferred sales tax revenue	1,682,409	991,974
Total deferred inflows of resources	1,682,409	991,974
Net position		
Invested in capital assets, net of related debt, excluding component units	11,735,321	12,870,648
Restricted for debt service	978,892	913,823
Component units	429,074	207,012
Unrestricted	19,129,529	18,851,891
Total net position	32,272,816	32,843,374
Total liabilities, deferred inflows of resources, and net position	$ 59,980,133	$ 60,703,057

Neosho Memorial Regional Medical Center
Statements of Revenues, Expenses, and
Changes in Net Position
Years ended December 31, 2025 and 2024

	2025	2024
Operating revenues		
Net patient service revenue	$ 60,110,832	$ 54,949,561
Other	1,318,167	1,204,053
Total operating revenues	61,428,999	56,153,614
Operating expenses		
Salaries and wages	28,983,482	28,648,654
Employee benefits	5,795,375	6,557,432
Supplies and other expenses	24,707,820	22,821,369
Depreciation and amortization	5,085,287	5,280,917
Total operating expenses	64,571,964	63,308,372
Operating loss	(3,142,965)	(7,154,758)
Nonoperating revenues (expenses)		
Investment income	586,637	636,050
Interest expense	(441,979)	(510,634)
Ambulance subsidy	2,000,000	2,120,004
Noncapital grants and contributions	662,274	391,000
Noncapital COVID-19 grants and contributions		54,046
Other	(234,525)	(222,007)
Total nonoperating revenues (expenses)	2,572,407	2,468,459
Expenses over revenues before capital grants and contributions	(570,558)	(4,686,299)
COVID-19 capital grants and contributions		80,841
Change in net position	(570,558)	(4,605,458)
Net position at beginning of year	32,843,374	37,448,832
Net position at end of year	$ 32,272,816	$ 32,843,374

The accompanying notes are an integral part of these statements.

Neosho Memorial Regional Medical Center
Statements of Cash Flows
Years ended December 31, 2025 and 2024

	2025	2024
Cash flows from operating activities		
Receipts from and on behalf of patients	$ 62,878,185	$ 54,558,601
Payments to or on behalf of employees	(34,610,600)	(35,250,951)
Payments for supplies and services	(24,641,903)	(22,883,401)
Other receipts and payments	1,166,850	1,884,910
Net cash provided (used) by operating activities	4,792,532	(1,690,841)
Cash flows from noncapital financing activities		
Ambulance subsidy	2,301,096	2,120,000
Noncapital grants and contributions	662,274	445,046
Other nonoperating expenses	(234,525)	(222,007)
Net cash provided by noncapital financing activities	2,728,845	2,343,039
Cash flows from capital and related financing activities		
Purchase of capital assets	(2,291,011)	(1,476,180)
Principal payments on long-term debt	(2,075,000)	(2,040,000)
Interest payments on long-term debt	(312,125)	(344,333)
Principal payments on lease liabilities	(410,140)	(471,079)
Interest paid on lease liabilities	(19,105)	(33,490)
Principal payments on subscription liabilities	(561,097)	(577,088)
Interest paid on subscription liabilities	(114,023)	(143,547)
Proceeds from promissory notes	712,828	
Principal payments on promissory notes	(712,828)	
Interest paid on promissory notes	(8,485)	
Capital grants and contributions		80,841
Net cash used for capital and related financing activities	(5,790,986)	(5,004,876)
Cash flows from investing activities		
Change in assets limited as to use	(65,069)	900,670
Changes in investments	(30,144)	(6,712)
Investment income received	574,536	630,089
Net cash provided by investing activities	479,323	1,524,047
Change in cash and cash equivalents	2,209,714	(2,828,631)
Cash and cash equivalents at beginning of year	11,024,355	13,852,986
Cash and cash equivalents at end of year	$ 13,234,069	$ 11,024,355

The accompanying notes are an integral part of these statements.

Neosho Memorial Regional Medical Center
Statements of Cash Flows - Continued
Years ended December 31, 2025 and 2024

	2025	2024
Reconciliation of cash and cash equivalents to statements of financial position		
Cash and cash equivalents in current assets	$ 12,881,303	$ 10,752,828
Cash internally designated by the board for capital asset acquisitions	34,177	36,684
Other restricted cash	318,589	234,843
	$ 13,234,069	$ 11,024,355
Reconciliation of operating loss to net cash provided (used) by operating activities		
Operating loss	$ (3,142,965)	$ (7,154,758)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities		
Depreciation and amortization	5,085,287	5,280,917
Provision for bad debts	6,872,123	8,959,153
Change in assets and liabilities		
Accounts receivable	(5,955,048)	(8,846,619)
Estimated third-party payor settlements	466,898	(487,928)
Inventories	50,842	(107,951)
Prepaid expenses	(177,355)	439,045
Other current assets	(151,317)	680,857
Accounts payable and accrued expenses	192,430	(393,126)
Salaries and payroll taxes payable	92,677	(164,983)
Accrued compensated absences	(40,051)	256,702
Estimated health insurance claims payable	115,631	(136,584)
Refundable and nonrefundable fees	1,383,380	(15,566)
Net cash provided (used) by operating activities	$ 4,792,532	$ (1,690,841)
Supplemental schedule of noncash investing and financing activities		
Lease liability incurred	$ 185,799	$ -

The accompanying notes are an integral part of these statements.

Neosho Memorial Regional Medical Center
Notes to Financial Statements
December 31, 2025 and 2024

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

Neosho Memorial Regional Medical Center (the Medical Center) is owned by Neosho County, Kansas, and operated by the Board of Trustees of Neosho Memorial Regional Medical Center, a seven-member governing board appointed by the governing body of the County. The Medical Center, which was organized in 1950, is a not-for-profit general hospital located in Chanute, Kansas. The Medical Center can sue and be sued, and can buy, sell, or lease real property. Bond issuances must be approved by the County. The Medical Center is a component unit of the County.

The Foundation of Neosho Memorial Regional Medical Center, Inc. (Foundation of NMRMC), and the Green Living Foundation, Inc. (GLF), are legally separate 501(c)(3) corporations with the Medical Center serving as the sole voting member of both the Foundation of NMRMC and GLF. The Foundations are operated exclusively for charitable purposes. The Medical Center includes the above Foundations as component units in the Medical Center's financial statements using the blended method. All significant intercompany accounts and transactions have been eliminated in the accompanying financial statements.

A summary of significant accounting policies consistently applied in the preparation of the accompanying financial statements follows.

1. 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.

2. Basis of accounting

The financial statements have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, and liabilities are recognized when the transaction occurs.

3. Cash and cash equivalents

The Medical Center considers all cash and invested cash to be cash equivalents, excluding any amounts included in assets limited as to use under bond indenture agreements held by trustee and items classified as investments by the Foundation.

4. Investments

Investments are reported at fair value. Interest, dividends, and gains and losses, both realized and unrealized, are included in investment income.

5. Allowance for doubtful accounts

The Medical Center 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 Medical Center estimates this allowance based on the aging of its accounts receivable and applying specific reserve factors for each type of payor.

6. Inventories

Inventories are stated at the lower of cost or market with cost determined on the first-in, first-out method.

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

7. Assets limited as to use

Assets limited as to use include assets set aside by the Board of Trustees for future capital improvements over which the Board retains control and may, at its discretion, subsequently use for other purposes; assets held by a trustee under a bond indenture agreement; assets whose use is restricted by donors and other sources. 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 useful lives established by the American Hospital Association.

Leased assets are recognized at the lease commencement date and represent the Medical Center'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 of the lease, plus any initial direct costs necessary to place the lease asset into service. Leased assets are amortized over the shorter of the lease term or useful life of the underlying asset using the straight-line method or the same method amortizing the liability.

Subscription assets are recognized at the subscription commencement date and represent the Medical Center's right to use an underlying asset for the subscription term. Subscription assets are measured at the initial value of the subscription liability at the commencement of the subscription term, less any incentives received from the vendor at or before the commencement of the subscription, plus any initial direct costs necessary to place the subscription asset into service. Subscription assets are amortized over the subscription term using the straight-line method or the same method amortizing the liability.

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

9. Cost of borrowing

Interest costs (including amortization of bond premium), incurred on borrowed funds during the period of construction of capital assets are expensed as interest in the period incurred. Costs incurred in connection with the issuance of long-term debt are expensed in the period incurred. Original issue premiums and discounts associated with the issuance of long-term debt are amortized using the interest method over the term of the related debt.

10. Accrued compensated absences

The Medical Center provides access to paid time off to assure each employee has the needed physical and mental well-being to provide quality patient care and related activities. Medical Center employees earn paid time off at varying rates depending on years of service. Paid time off benefits vest to the employee and are paid at the time of termination, provided certain requirements are met. The Medical Center provides conversion privileges which allow eligible employees to sell-back paid time off to the Medical Center to satisfy medical debts, as a donation to the Foundation, or as a lump-sum cash distribution to the employee net of applicable federal and state withholdings.

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

In the event of an employee's extended illness or injury, the Medical Center also offers extended illness bank (EIB) benefits to eligible employees based on hours worked. EIB amounts vest to the employee, but are not paid out if an employee terminates employment at the Medical Center. In the event of a status change from full-time or part-time to pro re nata, accrued EIB benefits are forfeited. Full-time employees are required to utilize paid time off hours equivalent to one scheduled shift per illness or injury prior to accessing their extended illness bank; a part-time employee can utilize his or her extended illness benefits bank once paid time off equal to 15 percent of their average hours worked per pay period is utilized. The Medical Center estimates a liability for vested EIB based on historical usage by employees.

11. Net position

The net position of the Medical Center is classified into the following components. "Net position invested in capital assets net of related debt, excluding component units" consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted net position" is noncapital related assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Medical Center, including amounts deposited with trustees as required by revenue bond indentures. "Unrestricted net position" is the remaining net position that does not meet the definition of "invested in capital assets net of related debt, excluding component units" or "restricted." Component unit's net position is related to the Foundations and are under the control of each entity's board.

12. Operating revenues and expenses

The Medical Center'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, the Medical Center's principal activity. Nonexchange revenues, including grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs and costs associated with fundraising activities by the component units.

13. Net patient service revenue

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

14. Grants and contributions

From time to time, the Medical Center receives grants and contributions from individuals and private organizations. Revenues from grants and contributions 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.

15. Indigent care

The Medical Center 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 Medical Center does not pursue collection of amounts determined to qualify as indigent care, they are not reported as revenue. The amount of indigent care charges foregone and the estimated cost of providing this care is disclosed in Note B.

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

16. Income taxes

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

17. Subsequent events

Subsequent events have been evaluated through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

18. Reclassifications

The Medical Center is required to meet certain financial covenants with its revenue bonds. These covenants were met in 2025 but were not met in 2024. Since the covenants were not met in 2024, the Medical Center was in technical default of its revenue bonds which were presented as a current liabilities in the 2024 financial statements. Since the Medical Center is no longer in technical default of its revenue bonds, the noncurrent portion of the revenues bonds outstanding at December 31, 2024, has been reclassified to noncurrent liabilities.

Note B - Reimbursement Programs

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

Medicare - The Medical Center is a critical access hospital for purposes of the Medicare program and is paid for most services rendered to Medicare beneficiaries under various cost reimbursement methodologies. Ambulance and physician services are prospectively paid based on their respective fee schedules. The Medical Center is paid for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Medical Center and audits or reviews thereof by the Medicare administrative contractor. The Medical Center'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 Medical Center's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through December 31, 2023.

Medicaid - Inpatient and outpatient 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. The Medical Center receives a hospital-specific add-on percentage to each claim based on previously filed cost reports. All other services rendered to Medicaid beneficiaries are paid at prospective rates determined on either a per diem or a fee-for-service basis and are not subject to retroactive adjustment.

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

Note B - Reimbursement Programs - Continued

A summary of gross and net patient service revenue is as follows:

	2025	2024
Gross patient service revenue	$ 162,488,112	$ 155,406,926
Deductions from patient service revenue		
Third-party contractual adjustments	(95,201,616)	(89,513,071)
Medicaid DSH payments	1,559,464	2,204,985
Medicaid provider assessment payments	2,736,352	1,196,097
Other discounts and allowances	(2,388,080)	(3,171,297)
Charity care	(2,115,861)	(2,112,794)
Uninsured discounts	(95,416)	(102,132)
Provision for bad debts	(6,872,123)	(8,959,153)
Net patient service revenue	$ 60,110,832	$ 54,949,561

The Medical Center estimates that the cost of providing charity care, based on overall cost to charge ratios obtained from the Medical Center's cost reports was $814,000 and $813,000 for 2025 and 2024, respectively.

Revenue from the Medicare and Medicaid programs accounted for approximately 32 percent and 13 percent, respectively, of the Medical Center's net patient service revenue during 2025, and 34 percent and 13 percent, respectively, of the Medical Center's net patient service revenue during 2024. Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates could change by a material amount in the near term.

Note C - Capital Assets

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

	Balance December 31, 2024	Transfers and additions	Retirements	Balance December 31, 2025
Capital assets not being depreciated				
Land	$ 1,475,864	$ -	$ -	$ 1,475,864
Projects in progress	15,063	301,685		316,748
Total capital assets not being depreciated	1,490,927	301,685	-	1,792,612
Capital assets being depreciated				
Land improvements	2,957,120	45,444		3,002,564
Buildings	37,676,564	1,547,509		39,224,073
Fixed equipment	19,689,491	(9,779)	36,361	19,643,351
Major movable equipment	26,130,269	408,662	1,403,853	25,135,078
Total capital assets being depreciated	86,453,444	1,991,836	1,440,214	87,005,066
Less accumulated depreciation for				
Land improvements	1,581,061	111,774		1,692,835
Buildings and fixed equipment	36,266,479	2,279,570	36,361	38,509,688
Major movable equipment	20,106,911	1,385,997	1,403,853	20,089,055
Total accumulated depreciation	57,954,451	3,777,341	1,440,214	60,291,578
Total capital assets being depreciated, net	28,498,993	(1,785,505)	-	26,713,488
Lease assets being amortized				
Leased equipment	2,291,141	185,799	1,702,443	774,497
Less accumulated amortization for				
Leased equipment	1,448,091	734,512	1,702,443	480,160
Total leased assets amortized, net	843,050	(548,713)	-	294,337
Subscription assets being amortized				
Subscription assets	4,169,072	-	-	4,169,072
Less accumulated amortization for				
Subscription assets	1,808,061	575,944	-	2,384,005
Total subscription assets amortized, net	2,361,011	(575,944)	-	1,785,067
Total capital assets, net	$ 33,193,981	$ (2,608,477)	$ -	$ 30,585,504

Note C - Capital Assets - Continued

	Balance December 31, 2023	Transfers and additions	Retirements	Balance December 31, 2024
Capital assets not being depreciated				
Land	$ 706,321	$ 769,543	$ -	$ 1,475,864
Projects in progress	7,471,673	(7,456,610)		15,063
Total capital assets not being depreciated	8,177,994	(6,687,067)	-	1,490,927
Capital assets being depreciated				
Land improvements	1,987,593	977,127	7,600	2,957,120
Buildings	32,411,722	5,266,994	2,152	37,676,564
Fixed equipment	21,088,658	151,977	1,551,144	19,689,491
Major movable equipment	25,204,797	1,767,151	841,679	26,130,269
Total capital assets being depreciated	80,692,770	8,163,249	2,402,575	86,453,444
Less accumulated depreciation for				
Land improvements	1,476,857	111,804	7,600	1,581,061
Buildings and fixed equipment	35,463,105	2,356,669	1,553,295	36,266,479
Major movable equipment	18,856,572	2,092,019	841,680	20,106,911
Total accumulated depreciation	55,796,534	4,560,492	2,402,575	57,954,451
Total capital assets being depreciated, net	24,896,236	3,602,757	-	28,498,993
Lease assets being amortized				
Leased equipment	2,291,141	-	-	2,291,141
Less accumulated amortization for				
Leased equipment	1,330,351	117,740	-	1,448,091
Total leased assets amortized, net	960,790	(117,740)	-	843,050
Subscription assets being amortized				
Subscription assets	4,169,072	-	-	4,169,072
Less accumulated amortization for				
Subscription assets	1,205,374	602,687	-	1,808,061
Total subscription assets amortized, net	2,963,698	(602,687)	-	2,361,011
Total capital assets, net	$ 36,998,718	$ (3,804,737)	$ -	$ 33,193,981

Note D - Assets Limited as to Use and Investments

Internally designated

The Medical Center's Board of Trustees has designated certain investments to be used for future capital improvements. These assets may be used for other purposes by action of the Board of Trustees. These assets are held in an interest bearing checking account.

Under bond indenture agreement - held by trustee

Assets limited as to use by a bond indenture agreement are held by a trustee and are invested in cash or money market funds and are stated at fair value. These assets relate to the revenue bond issues and are set aside for the following purposes:

	2025	2024
Principal and interest repayment	$ 978,892	$ 913,823

Donor-imposed restrictions

Assets limited as to use by donor-imposed restrictions are held by the Foundation of Neosho Memorial Regional Medical Center, Inc., and consist of promises to give financial assets for Medical Center capital projects.

Other restricted cash

Other restricted cash includes funds set aside by the Medical Center for purposes of administering a grant and funds set aside for purposes of an accounts receivable recourse program administered by a bank.

Note E - Investments

Investments held by the Foundation of NMRMC are stated at fair value and are summarized as follows:

	2025	2024
Money market funds	$ 30,013	$ 26,749
Fixed income funds	86,277	68,534
Equity funds	135,518	114,280
	$ 251,808	$ 209,563

Note E - Investments - Continued

Investment income consists of the following:

	2025	2024
Interest on patient accounts	$ 29,436	$ 26,147
Dividends and interest	543,666	600,106
Investment fees	(1,578)	(2,141)
Net realized and unrealized gains	15,113	11,938
	$ 586,637	$ 636,050

The Foundation of NMRMC net assets include endowment funds that consist of a donor-restricted endowment fund that is invested to provide long-term income for the Foundation of NMRMC, the income from which is to accumulate to enable the Foundation of NMRMC to provide support to Medical Center programs, projects, services, and related activities. Net assets associated with the endowment fund are classified and reported based on the existence of donor-imposed restrictions.

The Board of Directors has interpreted the Kansas Uniform Prudent Management of Institutional Act (UPNIFA) as requiring preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation of NMRMC classifies as donations with donor restrictions that are perpetual in nature (a) the original value of gifts donated to the perpetual endowments, (b) the original value of the subsequent gifts to the perpetual endowments, and (c) accumulations to the perpetual endowments made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the funds.

The remaining portion of the donor-restricted endowment funds that are not classified in perpetually restricted net assets are classified as purpose-restricted net assets until these amounts are appropriated for the expenditure by the Board of Directors in a manner consistent with the standard of prudence prescribed by the UPMIFA. The Board may appropriate for expenditure the investment earnings from the contributions, provided that the contributions have been held for a minimum of two years.

It is the policy of the Board to manage its investments in a prudent manner consistent with good stewardship, yet striving to enhance its return on the available funds. To assist in accomplishing this objective the board has established an investment policy, engages a professional investment advisor, and monitors the investments and investment returns.

From time to time, certain donor-restricted endowment funds may have fair values less than the amount required to be maintained by donors or by law (underwater endowments). We have interpreted UPMIFA to permit spending from underwater endowments in accordance with prudent measures required under law.

At December 31, 2025, none of the Foundation of NMRMC's perpetual endowment funds were underwater. At December 31, 2024, the value of the perpetual endowment had fallen below the amount of the original gifts.

Note E - Investments - Continued

Changes in endowment net assets are as follows:

	With donor restrictions		
	Purpose restricted	Perpetual in nature	Total
Balance at January 1, 2024	$ -	$ -	$ -
Contributions		77,546	77,546
Net investment return	(1,518)		(1,518)
Balance at December 31, 2024	(1,518)	77,546	76,028
Contributions		15,031	15,031
Net investment return	11,359		11,359
Balance at December 31, 2025	$ 9,841	$ 92,577	$ 102,418

Note F - Fair Value

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

Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets that the Medical Center has the ability to access.

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

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

Fair value measurement is based on the lowest level of any input that is significant to the fair value measurement. The following is a description of the valuation methodologies used by the Medical Center for assets measured at fair value on a recurring basis:

Money market mutual funds, fixed income funds, and equity funds are valued at unadjusted quoted prices for identical securities in active markets.

Note F - Fair Value - Continued

The following table sets forth, by level within the fair value hierarchy, the Medical Center's assets measured at fair value on a recurring basis.

	December 31, 2025			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 30,013	$ -	$ -	$ 30,013
Fixed income funds	86,277			86,277
Equity funds	135,518			135,518
	$ 251,808	$ -	$ -	$ 251,808

	December 31, 2024			
	Level 1	Level 2	Level 3	Total
Money market funds	$ 26,749	$ -	$ -	$ 26,749
Fixed income funds	68,534			68,534
Equity funds	114,280			114,280
	$ 209,563	$ -	$ -	$ 209,563

Note G - Employee Health Insurance

The Medical Center sponsors a partially self-funded employee health insurance plan. The Medical Center has reinsured a portion of its risk for health insurance claims of its employees. The reinsurance agreement generally covers claims totaling over $150,000 for each covered individual on an annual basis. The reinsurance arrangement also covers aggregate annual claims of the plan in excess of an amount determined in relation to the number of individuals participating in the plan during the year. Covered employees also provide part of the funds to pay claims through monthly contributions at predetermined rates. The Medical Center has retained an agent to process and settle claims.

The following is a summary of the activity under this arrangement for the years ended December 31:

	2025	2024
Estimated net health insurance claims payable at beginning of year	$ 201,716	$ 338,300
Provision for employer's share of incurred claims and related expenses for the year, net of any reinsurance proceeds	2,636,400	3,102,587
Participant contributions	1,431,946	1,397,865
Payments made for claims and related expenses	(3,952,715)	(4,637,036)
Estimated net health insurance claims payable at end of year	$ 317,347	$ 201,716

Note H - Accrued Compensated Absences

The Medical Center offers compensated absences to eligible employees in the form of paid vacation and extended illness bank (EIB). The Medical Center will pay out unused vacation benefits upon termination provided certain requirements are met. Employees vest in the EIB benefits, but any unused EIB benefits will not be paid out upon termination. The Medical Center accrues a liability for the vested vacation leave and an estimate of the vested EIB benefits to be used by employees.

Accrued compensated absences consist of the following:

	2025	2024
Estimated accrued compensated absences	$ 3,497,939	$ 3,537,990
Less current portion	2,358,939	2,365,990
Noncurrent portion of accrued compensated absences	$ 1,139,000	$ 1,172,000

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

Accrued compensated absences at January 1, 2024	$ 3,281,288
Net change	256,702
Accrued compensated absences at December 31, 2024	3,537,990
Net change	(40,051)
Accrued compensated absences at December 31, 2025	$ 3,497,939

Note I - Promissory Notes

The Green Living Foundation, Inc., entered into three separate short-term promissory notes with a local bank during the year ended December 31, 2025, to finance construction of several independent living units. Interest accrued at 7.75 percent per annum and payable at maturity. Total advances on the promissory notes during the year were $712,828. All of the principal plus accrued interest, were paid in full during the year.

Note J - Long-Term Debt

Long-term debt consists of the following:

	2025	2024
1.45 - 2.20% Neosho County, Kansas Hospital Refunding Revenue Bonds, Series 2021A (Neosho Memorial Regional Medical Center); issued on October 27, 2021, in the original amount of $9,870,000 term bonds due serially through September 1, 2030, with mandatory annual redemptions	$ 5,750,000	$ 6,830,000
1.25 - 2.40% Neosho County, Kansas Hospital Revenue Bonds, Series 2021B (Neosho Memorial Regional Medical Center); issued on December 23, 2021, in the original amount of $3,585,000 term bonds due serially through September 1, 2031, with mandatory annual redemptions	3,160,000	3,260,000
1.25 - 2.25% Neosho County, Kansas Hospital Refunding Revenue Bonds, Series 2022 (Neosho Memorial Regional Medical Center); issued on January 12, 2022, in the original amount of $8,045,000 term bonds due serially through September 1, 2030, with mandatory annual redemptions	4,375,000	5,270,000
	13,285,000	15,360,000
Less current maturities of long-term debt	(2,110,000)	(2,075,000)
Long-term debt, net of current maturities	$ 11,175,000	$ 13,285,000

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

Outstanding at January 1, 2024	$ 17,400,000
Principal payments	(2,040,000)
Outstanding at December 31, 2024	15,360,000
Principal payments	(2,075,000)
Outstanding at December 31, 2025	$ 13,285,000

On October 27, 2021, the County issued Hospital Refunding Revenue Bonds, Series 2021A in the principal amount of $9,870,000 to refund the Series 2014A and B bonds and to pay the costs related to issuance of the Series 2021A bonds.

On December 23, 2021, the County issued Hospital Revenue Bonds, Series 2021B in the principal amount of $3,585,000 on behalf of the Medical Center pursuant to the supplementary bond trust indenture. The proceeds of the Series 2021B bonds are to fund future projects of the Medical Center.

Note J - Long-Term Debt - Continued

On January 12, 2022, the County issued Hospital Refunding Revenue Bonds, Series 2022, in the principal amount of $8,045,000 to refund the Series 2015 bonds and to pay the costs related to issuance of the Series 2022 bonds.

Under the terms of the bond indentures, the Medical Center is required to maintain certain deposits with a trustee. Such deposits are for the repayment of principal and interest as they come due as well as for the maintenance of required bond reserve accounts. These amounts are included with assets limited as to use in the financial statements. The indenture agreement also includes certain restrictive covenants relating to the acquisition and disposition of property, incurrence of additional indebtedness, level of fees and rates charged, and financial covenants.

Scheduled annual debt service requirements for the Hospital Revenue Bonds are as follows:

	Principal	Interest	Total
2026	$ 2,110,000	$ 276,850	$ 2,386,850
2027	2,145,000	239,373	2,384,373
2028	2,190,000	198,610	2,388,610
2029	2,230,000	154,240	2,384,240
2030	2,280,000	106,825	2,386,825
2031	2,330,000	55,920	2,385,920
	$ 13,285,000	$ 1,031,818	$ 14,316,818

Total interest costs are summarized as follows:

	2025	2024
Revenue bonds	$ 300,366	$ 333,597
Promissory notes	8,485	
Lease liabilities	19,105	33,490
Subscription liabilities	114,023	143,547
	$ 441,979	$ 510,634

Note K - Lease Liabilities

The Medical Center leases certain equipment. Payments are based on each lease agreement. The Medical Center's leases do not contain variable lease payments or residual value guarantees. The following is a summary of lease liabilities as of December 31:

	2025	2024
Equipment lease liability; implied interest rate of 3.50%; payable in monthly installments of $30,970 through June 2025	$ -	$ 214,286
Equipment lease liability; implied interest rate of 5.00%; payable in monthly installments of $11,077 through July 2027	201,944	321,507
Equipment lease liability; implied interest rate of 5.00%; payable in monthly installments of $15,906 through July 2026	109,508	
	311,452	535,793
Less current maturities of lease liabilities	(235,189)	(333,850)
Noncurrent portion	$ 76,263	$ 201,943

The following is a summary of changes in lease liabilities:

Outstanding at January 1, 2024	$ 1,006,872
Principal payments	(471,079)
Outstanding at December 31, 2024	535,793
Additions	185,799
Principal payments	(410,140)
Outstanding at December 31, 2025	$ 311,452

Scheduled future lease liability payments are as follows:

	Principal	Interest	Total
2025	$ 235,189	$ 9,076	$ 244,265
2026	76,263	1,276	77,539
	$ 311,452	$ 10,352	$ 321,804

Note K - Lease Liabilities - Continued

Rental expense for all leases consisted of the following:

	2025	2024
Amortization of leased assets	$ 394,210	$ 458,042
Interest on lease liabilities	19,105	33,490
Short-term leases	115,586	94,841
	$ 528,901	$ 586,373

Note L - Subscription Liabilities

The Medical Center's SBITAs primarily relate to subscription software for its patient accounting and electronic medical records system and supporting modules. Payments are based on each underlying contract and vary between monthly, quarterly, semi-annual, and annual payments. In certain situations, the vendor is allowed to increase the subscription payment annually. Differences between the original payment schedules and the current payment schedules are considered variable consideration. The variable consideration was not significant for the years ended December 31, 2025 and 2024. The following is a summary of subscription liabilities as of December 31:

	2025	2024
Subscription liabilities; implied interest rate of 5.00%; annual payments ranging from $63,780 to $565,824, with terms ranging from August 2025 - May 2029	$ 1,947,042	$ 2,508,139
Less current maturities of lease liabilities	(543,138)	(561,097)
Noncurrent portion	$ 1,403,904	$ 1,947,042

The following is a summary of changes in subscription liabilities:

Outstanding at January 1, 2024	$ 3,085,227
Principal payments	(577,088)
Outstanding at December 31, 2024	2,508,139
Principal payments	(561,097)
Outstanding at December 31, 2025	$ 1,947,042

Note L - Subscription Liabilities - Continued

Scheduled future subscription liability payments are as follows:

	Principal	Interest	Total
2025	$ 543,138	$ 86,466	$ 629,604
2026	570,926	58,678	629,604
2027	600,136	29,468	629,604
2028	232,842	2,918	235,760
	$ 1,947,042	$ 177,530	$ 2,124,572

Rental expense for all subscription assets and liabilities consisted of the following:

	2025	2024
Amortization of subscription assets	$ 575,944	$ 602,687
Interest on subscription liabilities	114,023	143,547
	$ 689,967	$ 746,234

Note M - Refundable and Nonrefundable Fees

The Green Living Foundation, Inc., has entered into contracts with residents to provide housing and other services under an independent living arrangement for the Foundation Homes (Community). Residents are required to pay a Lifetime Deposit in order to occupy a unit. The Lifetime Deposit is 72.5 percent to 75 percent refundable and the remaining 25 to 27.5 percent is nonrefundable. The nonrefundable fee is amortized over the remaining life expectancy of the resident. The Lifetime Deposit is held by GLF and used for the purpose of construction, financing, operational costs, capital repairs, improvements, future refunds for the Community, and for any reserve funds. Refundable fees are summarized as follows:

	2025	2024
Beginning of period	$ 1,676,175	$ 1,672,891
Repayments of refundable liability		(199,999)
Payments received	1,073,754	203,283
Total refundable fees	$ 2,749,929	$ 1,676,175

Note M - Refundable and Nonrefundable Fees - Continued

Nonrefundable fees are summarized as follows:

	2025	2024
Beginning of period	$ 401,767	$ 420,617
Payments received	357,918	67,761
Amortization	(48,292)	(86,611)
Total nonrefundable fees	$ 711,393	$ 401,767

Note N - Related-Party Transactions

The Medical Center contracts with an outside company to provide management services. During the year ended December 31, 2025, the Medical Center ended its management services contract with Ovation Healthcare and entered into a management services contract with Community Hospital Corporation (CHC). Under its agreement, CHC is responsible for providing management services of the Medical Center, with ultimate control over the assets and operations of the Medical Center retained by the Medical Center's board. Amounts paid to Ovation Healthcare and CHC during 2025 and 2024, for management services were $403,705 and $404,582, respectively. The Medical Center also reimbursed Ovation Healthcare for salaries, employee benefits, and expenses of the chief executive officer and the chief financial officer. Under its new management services agreement with CHC, all management level employees are employed by the Medical Center.

The County provides annual support to the Medical Center for the operation of the ambulance department. The County funded this support through sales tax receipts. The Medical Center recognized total revenues of $2,000,000 in 2025 and $2,120,004 in 2024 for ambulance operations. At December 31, 2025 and 2024, the Medical Center had recorded a receivable from the County of $2,787,868 and $2,457,652 related to ambulance sales tax receipts. The receivable is estimated based on the sales taxes collected by the County that exceeds the amount the County has appropriated to the Medical Center through its budgeting process. The Medical Center has also recorded deferred revenue for amounts that have been collected by the County but not remitted to the Medical Center through the County's budgeting process.

Note O - Retirement Plan

The Medical Center sponsors a defined contribution plan (Plan) as authorized by Kansas statutes. Under a defined contribution pension plan, the benefits a participant will receive depend solely on the amount contributed to the participant's account and the returns earned on investments of those contributions.

The Plan covers substantially all employees of the Medical Center. Employees are eligible to make contributions immediately to the Plan. To become eligible for contributions made by the Medical Center, the employee must have a year of service, defined as 1,000 hours. Employee contributions vest immediately and contributions made by the Medical Center vest over six years.

The Medical Center provides for a discretionary match which is determined annually by the Board of Trustees. For the years ended December 31, 2025 and 2024**,** the Medical Center matched 100 percent of each eligible employee's contribution up to 4 percent of the participant's compensation.

The payroll for employees covered by the Plan for the years ended December 31, 2025 and 2024, was $22,550,976 and $21,613,655, respectively. The total payroll was $28,827,374 in 2025 and $28,009,454 in 2024. Total contributions to the Plan in 2025 were $2,323,231, which consisted of $1,620,434 of employee contributions and $702,797 of employer matching contributions. Total contributions to the Plan in 2024 were $2,254,166, which consisted of $1,452,706 of employee contributions and $801,460 of employer matching contributions.

No pension provision changes occurred during the year that affected the required contributions to be made by the Medical Center or its employees. The Plan held no securities of the Medical Center or other related parties during the year or as of the close of the year. Total employer contributions, net of forfeitures, were 3.1 and 3.7 percent of covered payroll in 2025 and 2024. Total employee contributions were 7.2 and 6.7 percent of covered payroll in 2025 and 2024, respectively.

Note P - Deposits and Investments with Financial Institutions

Kansas statutes authorize the Medical Center, 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. Also, statutes require that financial institutions pledge securities with a market value equal to total deposits in excess of F.D.I.C. 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.

The carrying amount of deposits with financial institutions was $13,231,755, and the bank balance was $13,472,280 at December 31, 2025. The bank deposits are categorized as follows:

	Medical Center	Component units	Total
Amount insured by the F.D.I.C.	$ 1,750,000	$ 279,874	$ 2,029,874
Uncollateralized (collateralized with securities held in safekeeping under joint custody receipt by an authorized depository other than the pledging financial institution's trust department, but not in the Medical Center's name)	11,186,729		11,186,729
Amounts unsecured (noncompliance with Kansas statutes)	68,565	187,112	255,677
	$ 13,005,294	$ 466,986	$ 13,472,280

Note Q - Commitments and Contingencies

In addition to the risk disclosed elsewhere in these financial statements and notes thereto, the Medical Center is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Medical Center purchases commercial insurance for these risks.

Note R - Concentration of Credit Risk

The Medical Center is located in Chanute, Kansas. The Medical Center grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors is as follows:

	2025	2024
Medicare	21 %	19 %
Medicaid	7	7
Blue Cross	15	11
Commercial and other	36	42
Uninsured	21	21
	100 %	100 %

Note S - Medical Malpractice Insurance

The Medical Center is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of $200,000 per occurrence up to an annual aggregate of $600,000 for all claims made during the policy year. The Medical Center is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to $800,000 pursuant to any one judgment or settlement against the Medical Center 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 $2,400,000. The policy provided by the independent insurance carrier provides for umbrella liability in excess of the underlying limits set forth above in the amount of $5,000,000 per occurrence with an aggregate amount in any policy year of $5,000,000. All coverage is on a claims-made basis. The above policies were renewed on January 1, 2026, for the policy period from January 1, 2026 to January 1, 2027. Management believes that any claims asserted for incidents occurring through December 31, 2025, would be settled within the limits of insurance coverage.

Note T - Condensed Combining Information

Condensed financial data for the Medical Center and its blended component units as of and for the year ended December 31, 2025, are presented in the following tables:

	Statement of Net Position - 2025			
	Medical Center	Component units	Eliminations	Combined
Assets				
Current assets	$ 28,324,267	$ 747,596	$ (30,000)	$ 29,041,863
Capital assets	27,412,704	3,172,800		30,585,504
Other assets	352,766			352,766
Total assets	$ 56,089,737	$ 3,920,396	$ (30,000)	$ 59,980,133
Liabilities				
Current liabilities	$ 8,769,419	$ 30,000	$ (30,000)	$ 8,769,419
Noncurrent liabilities	13,794,167	3,461,322		17,255,489
Total liabilities	22,563,586	3,491,322	(30,000)	26,024,908
Deferred inflows of resources	1,682,409	-	-	1,682,409
Net position				
Invested in capital assets net of related debt, excluding component units	11,735,321			11,735,321
Restricted for debt service	978,892			978,892
Restricted for component units		429,074		429,074
Unrestricted	19,129,529			19,129,529
Total net position	31,843,742	429,074	-	32,272,816
Total liabilities, deferred inflows of resources, and net position	$ 56,089,737	$ 3,920,396	$ (30,000)	$ 59,980,133

Note T - Condensed Combining Information - Continued

	Statement of Revenues, Expenses, and Changes in Net Position - 2025			
	Medical Center	Component units	Eliminations	Combined
Operating revenues				
Net patient service revenue	$ 60,110,832	$ -	$ -	$ 60,110,832
Other	1,215,420	102,747		1,318,167
Total operating revenues	61,326,252	102,747	-	61,428,999
Operating expenses				
Salaries and wages	28,983,482			28,983,482
Employee benefits	5,795,375			5,795,375
Supplies and other expenses	24,574,907	132,913		24,707,820
Depreciation and amortization	4,951,797	133,490		5,085,287
Total operating expenses	64,305,561	266,403	-	64,571,964
Operating loss	(2,979,309)	(163,656)	-	(3,142,965)
Nonoperating revenues (expenses)				
Investment income	556,428	30,209		586,637
Interest expense	(433,494)	(8,485)		(441,979)
Ambulance subsidy	2,000,000			2,000,000
Noncapital grants and contributions	63,755	612,268	(13,749)	662,274
Other		(248,274)	13,749	(234,525)
Total nonoperating revenues (expenses)	2,186,689	385,718	-	2,572,407
Expenses over revenues before capital grants and contributions	(792,620)	222,062	-	(570,558)
Capital grants and contributions				-
Change in net position	(792,620)	222,062	-	(570,558)
Net position beginning of year	32,636,362	207,012	-	32,843,374
Net position end of year	$ 31,843,742	$ 429,074	$ -	$ 32,272,816

Note T - Condensed Combining Information - Continued

	Statement of Cash Flows - 2025			
	Medical Center	Component units	Eliminations	Combined
Net cash provided (used) by				
Operating activities	$ 3,447,068	$ 1,345,464	$ -	$ 4,792,532
Noncapital financing activities	2,364,851	363,994		2,728,845
Capital and related financing activities	(4,395,612)	(1,395,374)		(5,790,986)
Investing activities	491,359	(12,036)		479,323
Net change in cash and cash equivalents	1,907,666	302,048	-	2,209,714
Cash and cash equivalents at beginning of year	10,860,615	163,740		11,024,355
Cash and cash equivalents at end of year	$ 12,768,281	$ 465,788	$ -	$ 13,234,069

Note T - Condensed Combining Information - Continued

Condensed financial data for the Medical Center and its blended component units as of and for the year ended December 31, 2024, are presented in the following tables:

	Statement of Net Position - 2024			
	Medical Center	Component units	Eliminations	Combined
Assets				
Current assets	$ 26,864,246	$ 458,337	$ (85,034)	$ 27,237,549
Capital assets	31,274,580	1,919,401		33,193,981
Other assets	271,527			271,527
Total assets	$ 58,410,353	$ 2,377,738	$ (85,034)	$ 60,703,057
Liabilities				
Current liabilities	$ 8,176,032	$ 92,784	$ (85,034)	$ 8,183,782
Noncurrent liabilities	16,605,985	2,077,942		18,683,927
Total liabilities	24,782,017	2,170,726	(85,034)	26,867,709
Deferred inflows of resources	991,974	-	-	991,974
Net position				
Invested in capital assets net of related debt, excluding component units	12,870,648			12,870,648
Restricted for debt service	913,823			913,823
Restricted for component units		207,012		207,012
Unrestricted	18,851,891			18,851,891
Total net position	32,636,362	207,012	-	32,843,374
Total liabilities, deferred inflows of resources, and net position	$ 58,410,353	$ 2,377,738	$ (85,034)	$ 60,703,057

Note T - Condensed Combining Information - Continued

	Statement of Revenues, Expenses, and Changes in Net Position - 2024			
	Medical Center	Component units	Eliminations	Combined
Operating revenues				
Net patient service revenue	$ 54,949,561	$ -	$ -	$ 54,949,561
Other	1,072,202	131,851		1,204,053
Total operating revenues	56,021,763	131,851	-	56,153,614
Operating expenses				
Salaries and wages	28,648,654			28,648,654
Employee benefits	6,557,432			6,557,432
Supplies and other expenses	22,744,139	77,230		22,821,369
Depreciation and amortization	5,177,477	103,440		5,280,917
Total operating expenses	63,127,702	180,670	-	63,308,372
Operating loss	(7,105,939)	(48,819)	-	(7,154,758)
Nonoperating revenues (expenses)				
Investment income	615,772	20,278		636,050
Interest expense	(510,634)			(510,634)
Ambulance subsidy	2,120,004			2,120,004
Noncapital grants and contributions	48,866	342,134		391,000
COVID-19 noncapital grants and contributions	54,046			54,046
Other		(382,848)	160,841	(222,007)
Total nonoperating revenues (expenses)	2,328,054	(20,436)	160,841	2,468,459
Expenses over revenues before capital grants and contributions	(4,777,885)	(69,255)	160,841	(4,686,299)
Capital grants and contributions		80,000	(80,000)	
COVID-19 capital grants and contributions	80,841	80,841	(80,841)	80,841
Change in net position	(4,697,044)	91,586	-	(4,605,458)
Net position beginning of year	37,333,406	115,426	-	37,448,832
Net position end of year	$ 32,636,362	$ 207,012	$ -	$ 32,843,374

Note T - Condensed Combining Information - Continued

	Statement of Cash Flows - 2024			
	Medical Center	Component units	Eliminations	Combined
Net cash provided (used) by				
Operating activities	$ (1,737,016)	$ 127,016	$ (80,841)	$ (1,690,841)
Noncapital financing activities	2,222,912	(40,714)	160,841	2,343,039
Capital and related financing activities	(4,832,072)	(92,804)	(80,000)	(5,004,876)
Investing activities	1,516,442	7,605		1,524,047
Net change in cash and cash equivalents	(2,829,734)	1,103	-	(2,828,631)
Cash and cash equivalents at beginning of year	13,690,349	162,637		13,852,986
Cash and cash equivalents at end of year	$ 10,860,615	$ 163,740	$ -	$ 11,024,355