Independent Auditor's Report and Financial Statements

Memorial Hospital of Hospital District #1 of Dickinson County, Kansas d/b/a Memorial Health System

September 30, 2025 and 2024

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Memorial Hospital of Hospital District #1 of Dickinson County, Kansas d/b/a Memorial Health System
Management's Discussion and Analysis
Years ended September 30, 2025 and 2024

Our discussion and analysis of the financial performance of Memorial Health System (Health System) provides a narrative overview of the Health System's financial activities for the years ended September 30, 2025, 2024 and 2023. The financial statements include the financial activity of the Memorial Health Foundation under the blending method. These statements do not include the activity of Abilene Housing, Inc. (AHI), which is audited by another accounting firm. Activity of AHI can be located in Note P of the financial statements. Please read this analysis in conjunction with the accompanying basic financial statements.

Financial highlights

The Health System's net position increased by $3,810,784 and $1,080,364 for the years ended September 30, 2025 and 2024.

The Health System reported an operating loss of $3,122,789 in 2025 compared to an operating loss of $5,078,799 in 2024. Significant items that affected the change in this loss from 2024 to 2025 are discussed in this management's discussion and analysis.

Using these financial statements

The Health System's financial statements consist of three statements - (1) Statements of Net Position; (2) Statements of Revenues, Expenses, and Changes in Net Position, and (3) Statements of Cash Flows. These financial statements and related notes provide information about the activities of the Health System, including resources held by or for the benefit of the Health System, and resources restricted for specific purposes by contributors, grantors, and indenture agreements.

One of the most important questions asked about the Health System's finances is, "Is the Health System as a whole better or worse off as a result of the year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report information about the Health System'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. For purposes of these two statements, revenues and expenses are taken into account regardless of when cash is received or paid.

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

The final required statement is the Statements 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 balances during the reporting period?"

Assets, liabilities, and net position

The Health System's statements of net position as of the end of each of the following periods are summarized as follows:

	2025	2024	2023
Assets			
Current assets	$ 19,875,577	$ 16,772,680	$ 14,299,495
Assets limited as to use	2,075,087	2,004,079	1,913,492
Capital assets, net	17,417,372	18,044,481	19,356,513
Other assets	263,387	336,539	1,037,114
Total assets	39,631,423	37,157,779	36,606,614
Deferred outflow on bond refunding	556,543	669,748	789,710
Liabilities			
Current liabilities	5,463,623	5,458,992	5,606,119
Long-term obligations	14,269,278	15,724,254	16,226,288
Total liabilities	19,732,901	21,183,246	21,832,407
Net position	$ 20,455,065	$ 16,644,281	$ 15,563,917

Cash and investments included in the current asset category increased by $3,696,236 and $2,697,987 during the years ended September 30, 2025 and 2024. Assets whose use is limited and other investments increased by $110,289 and $193,926 in the years ended September 30, 2025 and 2024.

In aggregate, the Health System's unrestricted cash, investments, and internally designated funds total $13,600,867, $9,851,547, and $7,136,979 as of September 30, 2025, 2024, and 2023, respectively. This represents 109, 81, and 60 days of average cash expenses on hand, respectively, during each of the periods then ended. The change in cash is attributable to multiple factors including changes in assets and liabilities from year to year, the increase in the Health System's excess of revenues over expenses, reduced by the investment in capital assets purchased and principal paid on long-term debt during the periods presented.

The Health System's net patient accounts receivable were 18.6, 25.1, and 27.5 percent of current assets as of September 30, 2025, 2024, and 2023, respectively. The average number of days in accounts receivable of net patient revenue was 29 as of September 30, 2025, and 35 days as of September 30, 2024 and 2023.

The Health System's net investment in capital assets was $17,417,372, $18,044,481, and $19,356,513 at the end of September 30, 2025, 2024, and 2023, respectively. The annual decrease is due to depreciation expense exceeding capital expenditures each fiscal year presented.

The Health System's other assets decreased by $73,152 and $700,575 in 2025 and 2024, respectively. These changes primarily relate to retention bonuses paid to employees in September 2023 which are being forgiven over a 2-year commitment period. The Health System is accounting for this transaction as a loan and is amortizing to expense the loan over a 24-month period. Employees who receive a bonus and leave employment within the 24-month period are required to repay the bonus.

The Health System's net position increased by $3,810,784 and $1,080,364 during the periods ended September 30, 2025 and 2024, respectively, and decreased by $1,346,646 for the period ended September 30, 2023. The percentage of total assets financed with net position, or equity, was 52 percent, 45 percent, and 43 percent as of September 30, 2025, 2024, and, 2023, respectively.

Operating results and changes in net position

The Health System's operating results and changes in net position for each of the last three years are summarized as follows:

	2025	2024	2023
Operating revenues	$ 51,050,057	$ 47,782,667	$ 44,505,425
Operating expenses	54,172,846	52,861,466	51,661,747
Operating loss	(3,122,789)	(5,078,799)	(7,156,322)
Interest expense	(599,926)	(616,185)	(651,829)
Nonoperating revenues - excluding SRHA	1,427,951	1,445,451	957,080
Nonoperating revenues - SRHA	6,045,295	5,287,407	5,504,425
Capital grants and contributions	60,253	42,490	
Change in net position	$ 3,810,784	$ 1,080,364	$ (1,346,646)

The first, and most significant, component of the overall change in the Health System's net position is the operating income (loss) - generally, the difference between net patient service revenue and the expenses incurred to perform these services.

The Health System's operating revenues increased by $3,267,390 in 2025 and by $3,277,242 in 2024, both as compared with the prior year. The increase in operating revenues was partially offset by the increase in operating expenses of $1,311,380 in 2025 and $1,199,719 in 2024. More information related to the significant elements affecting the change in operating revenues and expenses is discussed below.

Net patient service revenue is summarized as follows:

	2025	2024	2023
Inpatient services	$ 15,362,670	$ 18,449,369	$ 20,681,744
Outpatient services	69,981,887	62,275,659	52,815,540
Gross patient service revenue	85,344,557	80,725,028	73,497,284
Contractual adjustments	35,340,098	33,736,805	29,954,437
Provision for bad debts	2,927,273	2,701,864	2,342,428
Charity care	165,872	124,731	208,737
Net patient service revenue	$ 46,911,314	$ 44,161,628	$ 40,991,682

Outpatient charges represent 82.0 percent, 77.2 percent, and 71.9 percent of gross patient charges for the periods ended September 30, 2025, 2024, and 2023, respectively. The Health System's inpatient services consist of acute care, swing-bed care, nursing facility care services and inpatient psychiatric services through February 2024.

Inpatient gross charges are impacted by utilization, changes in charge rates, and the closing of the inpatient psychiatric unit in February 2024. The Health System provided 1,526, 2,604, and 3,821 inpatient acute, swing-bed, and psychiatric days for the periods ended September 30, 2025 , 2024, and 2023, respectively. Psychiatric inpatient days totaled 0, 517, and 1,456 for 2025, 2024, and 2023, respectively. Village Manor, which provides nursing facility care services, had 25,547, 25,692, and 26,077 days of care in the periods ended September 30, 2025, 2024, and 2023, respectively. The Health System increased most charge rates by 7.0 percent effective at the beginning of fiscal years 2025 and 2024, as well as 5.0 percent at the beginning of fiscal year 2023.

The Health System has agreements with various third-party payors that provide payments to the Health System at amounts different from its established charge rates. These differences are referred to as contractual adjustments. Contractual adjustments continue to be a significant portion of the reduction in gross patient services revenue and represent 41.4 percent, 41.8 percent, and 40.8 percent of charges for the periods ended September 30, 2025, 2024, and 2023, respectively.

The Health System provides care free of charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Charity care write-offs totaled $165,872, $124,731, and $208,737 for the periods ended September 30, 2025, 2024 and 2023, respectively. The provision for bad debts represented 3.4 percent, 3.3 percent, and 3.2 percent of gross patient service revenue during the periods ended September 30, 2025, 2024, and 2023, respectively. The combined provision for bad debt and charity care write-offs was 3.6 percent of gross patient services revenue for the period ended September 30, 2025, and 3.5 percent for 2024 and 2023.

The Health System implemented inflationary pay raises commensurate with market conditions for the periods ended September 30, 2025, 2024, and 2023. Total salaries and benefits increased by $162,169 in 2025 after increasing by $1,964,763 in 2024. The lower than inflationary increase in 2025 was due to the closing of the inpatient psychiatric unit. In 2025, 2024, and 2023, the Health System recognized an operating expense for the value of management services provided by SRHA. This expense is offset proportionately by a contribution received from SRHA for those services.

This financial report is designed to provide a general overview of the Health System's finances and to discuss significant changes in our financial statements. If you have any questions about the report, please contact the Administration Office at the hospital.

Wendling Noe Nelson & Johnson LLC
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Independent Auditor's Report

The Board of Directors
Memorial Hospital of Hospital District #1
of Dickinson County, Kansas
d/b/a Memorial Health System

Opinion

We have audited the accompanying financial statements of Memorial Hospital of Hospital District #1 of Dickinson County, Kansas d/b/a Memorial Health System (Health System), as of and for the years ended September 30, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Health System'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 Memorial Hospital of Hospital District #1 of Dickinson County, Kansas d/b/a Memorial Health System as of September 30, 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 Memorial Hospital of Hospital District #1 of Dickinson County, Kansas d/b/a Memorial Health System and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matters

As discussed in Note A to the financial statements, in 2025, the Health System adopted Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*. Our opinion is not modified with respect to this matter.

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 Memorial Hospital of Hospital District #1 of Dickinson County, Kansas d/b/a Memorial Health System'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.

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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.
- 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 Health System'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 Health System'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.

Wendling Noe Nelson & Johnson LLC

Topeka, Kansas
February 13, 2026

Financial Statements

Memorial Hospital of Hospital District #1 of Dickinson County, Kansas
d/b/a Memorial Health System
Statements of Net Position
September 30, 2025 and 2024

Assets and Deferred Outflows of Resources

	2025	2024
Current assets		
Cash and invested cash	$ 9,901,403	$ 6,355,163
Investments	3,380,813	3,230,817
Assets whose use is limited by indenture agreement - required for current liabilities	1,127,511	1,105,323
Patient accounts receivable, net of allowance for doubtful accounts of $1,984,308 in 2025 and $1,943,949 in 2024	3,701,997	4,204,407
Other receivables	625,067	1,146,707
Estimated third-party payor settlements	393,638	80,564
Inventories	326,122	365,634
Prepaid expenses	414,149	280,535
Ad valorem taxes receivable	4,877	3,530
Total current assets	19,875,577	16,772,680
Assets whose use is limited		
Internally designated	541,159	522,831
By indenture agreement	2,661,439	2,586,571
Less amounts required for current liabilities	(1,127,511)	(1,105,323)
Noncurrent assets whose use is limited	2,075,087	2,004,079
Capital assets		
Capital assets not being depreciated	491,001	732,985
Depreciable capital assets, net of accumulated depreciation	16,421,931	17,311,496
Subscription IT assets, net of accumulated amortization	504,440	
	17,417,372	18,044,481
Other noncurrent assets		
Other investments	197,519	180,426
Other receivables, excluding current portion	34,334	127,815
Other assets	31,534	28,298
Total other noncurrent assets	263,387	336,539
Total assets	39,631,423	37,157,779
Deferred outflows of resources - loss on bond refunding	556,543	669,748
Total assets and deferred outflows of resources	$ 40,187,966	$ 37,827,527

The accompanying notes are an integral part of these statements.

Liabilities and Net Position

	2025	2024
Current liabilities		
Current maturities of long-term debt	$ 1,010,000	$ 965,000
Current maturities of subscription IT liabilities	159,926	
Accounts payable	845,157	842,532
Due to Salina Regional Health Affiliations	3,248,299	2,395,834
Accrued interest payable	182,231	201,581
Estimated third-party payor settlements	15,000	1,051,000
Other current liabilities	3,010	3,045
Total current liabilities	5,463,623	5,458,992
Noncurrent liabilities		
Long-term debt, excluding current maturities	13,468,806	14,580,528
Subscription IT liabilities less current maturities	343,452	
Due to Salina Regional Health Affiliations, excluding current portion	425,486	1,115,428
Agency funds	31,534	28,298
Total noncurrent liabilities	14,269,278	15,724,254
Total liabilities	19,732,901	21,183,246
Net position		
Net investment in capital assets	2,991,730	3,168,701
Restricted		
For debt service	2,661,439	2,586,571
Expendable for capital acquisitions	6,898	28,134
For specific operating activities	118,348	107,985
Unrestricted	14,676,650	10,752,890
Total net position	20,455,065	16,644,281
Total liabilities and net position	$ 40,187,966	$ 37,827,527

Memorial Hospital of Hospital District #1 of Dickinson County, Kansas
d/b/a Memorial Health System
Statements of Revenues, Expenses, and Changes in Net Position
Years ended September 30, 2025 and 2024

	2025	2024
Operating revenues		
Net patient service revenue	$ 46,911,314	$ 44,161,628
Other	4,138,743	3,621,039
Total operating revenues	51,050,057	47,782,667
Operating expenses		
Salaries and wages	22,707,179	22,754,970
Employee benefits	4,891,573	4,681,613
Purchased administrative services	6,045,295	5,287,407
Supplies and other	17,473,441	16,644,522
Depreciation and amortization	3,055,358	3,492,954
Total operating expenses	54,172,846	52,861,466
Operating loss	(3,122,789)	(5,078,799)
Nonoperating revenues (expenses)		
Investment income	569,009	663,702
Ad valorem taxes	396,040	385,754
Noncapital contributions	459,230	369,769
Noncapital contributions, related party	6,045,295	5,287,407
Interest expense	(599,926)	(616,185)
Other	3,672	26,226
Nonoperating revenues, net	6,873,320	6,116,673
Excess of revenues over expenses before capital contributions	3,750,531	1,037,874
Capital contributions	60,253	42,490
Change in net position	3,810,784	1,080,364
Net position at beginning of period		
As previously reported	16,941,281	15,761,917
Prior period adjustment for change in accounting principle	(297,000)	(198,000)
As restated	16,644,281	15,563,917
Net position at end of period	$ 20,455,065	$ 16,644,281

The accompanying notes are an integral part of these statements.

Memorial Hospital of Hospital District #1 of Dickinson County, Kansas
d/b/a Memorial Health System
Statements of Cash Flows
Years ended September 30, 2025 and 2024

	2025	2024
Cash flows from operating activities		
Receipts from and on behalf of patients	$ 46,064,650	$ 44,942,760
Payments to or on behalf of contracted employees	(26,737,931)	(26,350,653)
Payments to suppliers	(16,625,172)	(16,992,064)
Other receipts and payments	4,070,824	3,582,042
Net cash provided by operating activities	6,772,371	5,182,085
Cash flows from noncapital financing activities		
Ad valorem taxes	394,693	386,733
Noncapital contributions	418,521	315,060
Other nonoperating receipts and payments	42,973	61,652
Net cash provided by noncapital financing activities	856,187	763,445
Cash flows from capital and related financing activities		
Purchase of capital assets	(2,724,596)	(2,263,175)
Proceeds from sale of assets		25,472
Contributions for capital assets	60,253	31,990
Repayment of long-term debt	(965,000)	(1,020,000)
Interest paid on long-term debt	(570,819)	(615,344)
Repayment of subscription IT liabilities	(150,670)	
Interest paid for subscription IT liabilities	(36,974)	
Net cash used by capital and related financing activities	(4,387,806)	(3,841,057)
Cash flows from investing activities		
Change in investments	17,056	189,252
Investment income received	538,495	499,595
Net cash provided by investing activities	555,551	688,847
Net change in cash and cash equivalents and restricted cash	3,796,303	2,793,320
Cash and cash equivalents and restricted cash at beginning of period	12,602,568	9,809,248
Cash and cash equivalents and restricted cash at end of period	$ 16,398,871	$ 12,602,568

The accompanying notes are an integral part of these statements.

Memorial Hospital of Hospital District #1 of Dickinson County, Kansas
d/b/a Memorial Health System
Statements of Cash Flows - Continued
Years ended September 30, 2025 and 2024

	2025	2024
Reconciliation of cash and cash equivalents and restricted cash		
Cash and cash equivalents reported as current assets	$ 9,901,403	$ 6,355,163
Cash and cash equivalents reported in assets limited as to use		
Internally designated	541,159	522,831
By indenture agreement	2,661,439	2,586,571
Cash and cash equivalents reported in investments	3,263,336	3,109,705
Cash and cash equivalents reported in other assets	31,534	28,298
	$ 16,398,871	$ 12,602,568
Reconciliation of operating loss to net cash provided by operating activities		
Operating loss	$ (3,122,789)	$ (5,078,799)
Adjustments to reconcile operating loss to net cash provided by operating activities		
Depreciation and amortization	3,055,358	3,492,954
Provision for bad debts	2,927,273	2,701,864
Noncapital contribution related party - in kind	6,045,295	5,287,407
Changes in		
Patient and other receivables	(1,805,098)	(2,221,571)
Estimated third-party payor settlements	(1,349,074)	1,052,241
Inventories and prepaid expenses	(94,102)	79,165
Accounts payable and accrued expenses	1,115,508	(131,176)
Net cash provided by operating activities	$ 6,772,371	$ 5,182,085
Supplemental schedule of noncash investing and financing activities		
Net change in unrealized gains on investments	$ 30,514	$ 164,107
Donated capital assets		10,500
Noncash subscription IT obligations incurred	654,048	

The accompanying notes are an integral part of these statements.

Memorial Hospital of Hospital District #1 of Dickinson County, Kansas
d/b/a Memorial Health System
Notes to Financial Statements
September 30, 2025 and 2024

Note A - Summary of Accounting Policies

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

1. Financial reporting entity

Memorial Hospital of Hospital District #1 of Dickinson County, Kansas d/b/a Memorial Health System (HealthSystem), is a municipal corporation operating an acute-care hospital located in Abilene, Kansas, with a licensed bed capacity of 25 acute care beds and a long-term care facility with a licensed bed capacity of 75 beds. The Health System also operates rural health clinics located in Abilene, Kansas, and in Herington, Kansas. The Health System is governed by an elected five-member Board of Directors.

The Health System has entered into a Management and Operating Agreement (Agreement) with Salina Regional Health Affiliations, LLC (SRHA). The Agreement provides for SRHA to manage and operate the Health System for an initial period of five years with automatic renewals of five-year terms unless either the Health System or SRHA provides written notice to terminate at least one year prior to the expiration of any such term. In connection with the management and operation of the Health System, SRHA became the employer of all of the Health System's employees on January 1, 2022. The Health System reimburses all costs incurred by SRHA with any outstanding balances recorded in a due to/due from account that is required to be resolved upon termination of the Agreement. The Health System's Board of Directors retains the authority to participate in making significant decisions, as defined in the Agreement.

2. Component units

The Memorial Health Foundation (Foundation) was formed and organized as a Kansas not-for-profit corporation on August 6, 2013. The Foundation is organized for specific health care purposes and is intended to be an auxiliary association and supporting organization for the financial aid and assistance of the Health System and all of its component or affiliated organizations and other causes and institutions. The Foundation is organized exclusively for charitable, educational, and scientific purposes, including, but not limited to, the sponsorship of specific projects and programs to improve health care services in the geographic area served by the Health System.

Since the bylaws of the Foundation provide that the Health System's board will always make up the majority of the Foundation's board and a financial benefit/burden relationship exists between the Health System and the Foundation, the Health System includes the Foundation as a component unit in the Health System's financial statements using the blended method. All significant intercompany accounts and transactions have been eliminated in the accompanying financial statements.

Abilene Housing, Inc. (AHI), was formed and organized as a Kansas not-for-profit corporation. AHI provides housing for elderly and handicapped persons in a 60-unit apartment project located in Abilene, Kansas, and provides services specifically designed to meet the physical, social, and psychological needs of those individuals. Membership of AHI's Board consists of three members designated by the Health System Board, one member is a member of the Board of Directors of the Health System, the Chief Executive Officer of the Health System, and either the Chief Financial Officer, Chief Operating Officer, or Chief Nursing Officer of the Health System. The Health System is financially accountable for AHI since the Health System Board appoints AHI's Board. The Health System does not have access to AHI's resources and is not legally obligated for AHI's long-term debt. Management has chosen to not blend the financial activity of AHI due to immateriality. Condensed financial statements of AHI are presented in Note P.

Note A - Summary of Accounting Policies - Continued

3. Basis of accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Revenues are recognized when earned and expenses and liabilities are recorded when incurred.

4. 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.

5. Cash equivalents

All cash and invested cash include highly-liquid investments, which include brokered certificates of deposit, are considered to be cash equivalents for purposes of the cash flow statement.

6. Patient accounts receivable

The Health System reports patient accounts receivable for services rendered at net realizable amounts expected to be received from third-party payors, patients, and others. The Health System provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions.

7. Inventories

Inventories are stated at the lower of cost or net realizable value.

8. Investments in debt and equity securities

Investments in debt and equity securities are carried at fair value. Interest, dividends, and gains and losses, both realized and unrealized, on investments in debt and equity securities are included in nonoperating investment income.

9. Capital assets

Capital assets excluding subscription IT assets are stated at cost. Depreciation and amortization of capital assets excluding subscription IT assets are provided on the straight-line method over the estimated useful lives of the assets. The estimated lives used are generally in accordance with the guidelines established by the American Hospital Association.

Subscription IT assets are recognized at the subscription commencement date and represent the Health System's right to use an underlying IT asset for the subscription term. Subscription IT assets are measured at the initial value of the subscription IT liability, plus subscription payments made at or before the commencement of the subscription-based information technology arrangement (SBITA) term, less any SBITA vendor incentives received from the SBITA vendor at or before the commencement of the SBITA term, plus capitalizable initial implementation costs. Subscription IT assets are amortized over the shorter of the subscription term or useful life of the underlying asset using the straight-line method or the same method amortizing the subscription liability.

Note A - Summary of Accounting Policies - Continued

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.

10. Subscription IT liabilities

Subscription IT liabilities represent obligations to make payments arising from SBITAs. Subscription IT liabilities are recognized at the SBITA commencement date based on the present value of future SBITA payments expected to be made during the SBITA term. The present value of the SBITA payments are discounted based on the rate implicit in the SBITA or the Health System's incremental borrowing rate.

11. Costs of borrowing

Interest costs incurred on borrowed funds during the period of construction of capital assets are expensed in the period incurred. Costs incurred in connection with the issuance of long-term debt are expensed in the period incurred.

12. Compensated absences

Employees are entitled to earned time off (ETO) depending on length of service, whether they are full-time or part-time, and level of management if applicable (Director, Supervisor, etc.). ETO vests and may be carried forward by an employee in an amount not to exceed hourly limits based on length of employment and management status. Employees who have accrued more than 40 hours of ETO have options to donate accrued hours to another employee, not to exceed 40 hours in any 12-month period, or to apply for payment of ETO hours at 80 percent of the employee's base rate of pay. Employee accrued ETO hours are not to fall below 40 hours due to donation or sellback. Upon retirement, resignation, or termination from service and in good standing, employees are entitled to payment of accrued unused ETO. ETO benefits are expensed and accrued as earned under the Health System's ETO policy, with the vested amount recorded as a current accrued liability. This liability is included in the current amount due to Salina Regional Health Affiliations.

In the event of a full-time employee's extended illness or injury, the Health System also offers extended illness bank (EIB) benefits to full-time eligible employees. EIB amounts vest to the employee but are not paid out if an employee terminates employment at the Health System or changes to part-time. Full-time employees are required to utilize earned time off hours equivalent to three scheduled workdays prior to accessing their extended illness bank, unless the employee incurs an overnight stay in the Health System. The Health System estimates a liability for vested EIB based on historical usage by employees. This liability is included in the current and long-term amounts due to Salina Regional Health Affiliations.

13. Deferred outflows and inflows of resources

Deferred outflows of resources represent a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. Deferred inflows of resources represent an acquisition of net position that applies to a future period and so will not be recognized as revenue until then.

Note A - Summary of Accounting Policies - Continued

14. Net position

Net position is classified in three components. "Net investment in capital assets" consists of capital assets net of accumulated depreciation and reduced by the balances of any outstanding borrowings used to finance the purchase or construction of those assets. "Restricted net position" is the noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Health System including amounts deposited with trustees as required by indenture agreements. "Unrestricted net position" is the remaining net position that does not meet the definition of "net investment in capital assets" or "restricted."

15. Net patient service revenue

Net patient service revenue is reported at established charges with deductions for discounts, charity care, the provision for bad debts, and contractual adjustments, 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.

16. Operating revenues and expenses

The 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 Health System's principal activity. Nonexchange revenues, including taxes, 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.

17. Charity care

The Health System 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 Health System does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue.

18. Ad valorem taxes

The Health System receives financial support from ad valorem taxes. Ad valorem taxes are assessed in November of each year and are available for use by the Health System in the following year.

19. Income taxes

The Health System is exempt from federal income taxes pursuant to Sections 115 and 501(a) of the Internal Revenue Code. The Foundation is exempt from federal income taxes pursuant to Section 501(c)(3).

20. Adoption of accounting pronouncements

Effective October 1, 2024, the Health System adopted Governmental Accounting Standards Board (GASB) Statement No. 101, *Compensated Absences*, which establishes how to account for and report on compensated absences. GASB 101 requires that liabilities for compensated absences be recognized for (1) leave that has not been used, and (2) leave that has been used but not yet paid in cash or settled through

Note A - Summary of Accounting Policies - Continued

noncash means. A liability should be recognized for leave that has not been used if (a) the leave is attributable to services the employee already rendered, (b) the leave accumulates, and (c) the leave is more likely than not to be used for time off or otherwise paid in cash or settled through noncash means.

Leave is attributable to services already rendered when an employee has performed the services required to earn the leave. Leave that accumulates is carried forward from the reporting period in which it is earned to a future reporting period during which it may be used for time off or otherwise paid or settled. In estimating the leave that is more likely than not to be used or otherwise paid or settled, an entity should consider relevant factors such as employment policies related to compensated absences and historical information about the use or payment of compensated absences.

GASB 101 requires a retrospective application as of the beginning of the earliest period presented (i.e., October 1, 2023). Comparative prior year financial statements have been adjusted to apply this standard retrospectively, which resulted in a beginning net position adjustment of $198,000. See Note R for amounts restated.

21. Subsequent events

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

22. Reclassifications

The Health System has reclassified the capital assets presentation to split out categories of capital assets on the statements of net position in 2024 to conform to the 2025 presentation.

Note B - Reimbursement Programs

The Health System has agreements with third-party payors that provide for payments to the Health System 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 Health System is a critical access hospital for purposes of the Medicare program. Inpatient and outpatient acute care services, swing-bed services, and rural health clinic (RHC) services rendered to Medicare beneficiaries are paid under cost reimbursement methodologies with RHC services subject to a per-visit cap.

Skilled nursing services provided at the Health System's long-term care facility are paid based on prospectively determined per diem rates. Physician services, other than RHC services, rendered to Medicare beneficiaries are paid based on a prospectively determined fee schedule.

The Health System is paid for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Health System and audits or reviews thereof by the Medicare administrative contractor. The Health System'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 Health System's Medicare cost reports have been audited or reviewed by the Medicare administrative contractor through September 30, 2022.

Note B - Reimbursement Programs - Continued

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 Health System receives a hospital-specific add-on percentage to each claim based on previously filed cost reports. Nursing facility services are paid at prospectively determined per diem rates set annually on the basis of cost information from preceding calendar years. RHC services rendered to Medicaid beneficiaries are paid at a prospectively determined rate per occasion of service. 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 - 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.

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

A summary of gross and net patient service revenue follows:

	2025	2024
Gross patient service revenue	$ 85,344,557	$ 80,725,028
Adjustments to patient service revenue		
Third-party contractual adjustments, discounts, and allowances	(35,340,098)	(33,736,805)
Provision for bad debts	(2,927,273)	(2,701,864)
Charity care	(165,872)	(124,731)
Net patient service revenue	$ 46,911,314	$ 44,161,628

Revenue from the Medicare and Medicaid programs accounted for approximately 44 percent and 17 percent, respectively, of the Health System's net patient service revenue during 2025, and 45 percent and 16 percent, respectively, of the Health System'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 - Employee Retention Bonus Receivable

The Health System has determined that the retention of its employees is in the best interest of the Health System and the patients they serve. To accomplish this, the Health System paid out retention bonuses in the amount of $1,593,000 on September 1, 2023, to encourage employees to remain employed at the Health System. The amount of the bonus will be forgiven at the end of a 24-month period provided the employee remains employed at the Health System. The bonus was structured as a loan and employees that agreed to the program signed an agreement to repay the bonus if they terminate employment within 24 months of receiving the loan. Since the vast majority of the employees are expected to stay for the entire 24-month period, the Health System is amortizing the loan to expense over the 24-month period. The outstanding receivable balance at September 30, 2025 and 2024, was $110,034 and $667,241, respectively.

Note D - Assets Limited as to Use

Assets limited as to use include assets set aside by the Board of Directors for replacement of capital assets or for purchase of additional capital assets, over which the Board retains control and may at its discretion subsequently use for other purposes and assets whose use is limited by indenture agreement consisting of money market mutual funds that are held by a trustee under bond indenture agreements. Amounts that are required for obligations classified as current liabilities are reported in current assets.

Note E - Investments and Other Investments

Investments are summarized as follows:

	2025	2024
Invested cash consisting of bank certificates of deposit, bank savings accounts, and money market mutual funds	$ 3,263,336	$ 3,109,705
Common stock at fair value	60,600	60,688
Abilene Community Foundation Endowment fund	33,514	26,680
Accrued interest	23,363	33,744
	$ 3,380,813	$ 3,230,817

The Health System received contributions from an outside trust consisting of various securities. The outside trustee stipulated that the Health System board administer the resources created by the contributions separate from public monies held by the Health System and that the assets be invested with the goal of maximizing the benefit to the Health System by retaining the securities in their existing form through their maturities and placing the assets in similar high-grade securities in the future. Restrictions on the use of the contributions have been met and the investments are now unrestricted as to their use by the Health System.

Other investments consist of the Health System's 25-percent ownership interest in Mobile Clinical Services, Inc. (MCSI). The Health System's equity in undistributed net earnings of MCSI since acquisition is $197,519. Nuclear medicine and ultrasound services are provided to the Health System through arrangements with MCSI. Total fees charged to operating expense for these services were approximately $91,550 and $43,328 for the years ended September 30, 2025 and 2024, respectively. Amounts payable to MCSI for these services were insignificant at September 30, 2025 and 2024.

Note F - Capital Assets

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

	Balance September 30, 2024	Additions/ transfers	Retirements	Balance September 30, 2025
Capital assets not being depreciated				
Land	$ 491,001	$ -	$ -	$ 491,001
Construction in process	241,984	(241,984)		
Total capital assets not being depreciated	732,985	(241,984)	-	491,001
Capital assets being depreciated				
Land improvements	1,466,892	35,375		1,502,267
Buildings	34,834,586	415,071		35,249,657
Major movable equipment	15,580,277	1,565,738	14,341	17,131,674
Total capital assets being depreciated	51,881,755	2,016,184	14,341	53,883,598
Less accumulated depreciation				
Land improvements	1,171,161	66,293		1,237,454
Buildings	21,819,480	1,452,603		23,272,083
Major movable equipment	11,579,618	1,386,853	14,341	12,952,130
Total accumulated depreciation	34,570,259	2,905,749	14,341	37,461,667
Total capital assets being depreciated, net	17,311,496	(889,565)	-	16,421,931
Subscription IT assets being amortized		654,049		654,049
Less accumulated amortization		149,609		149,609
Total subscription IT assets being amortized, net	-	504,440	-	504,440
Capital assets, net	$18,044,481	$ (627,109)	$ -	$17,417,372

Note F - Capital Assets - Continued

	Balance December 31, 2023	Additions/ transfers	Retirements	Balance September 30, 2024
Capital assets not being depreciated				
Land	$ 491,001	$ -	$ -	$ 491,001
Construction in process	28,672	213,312		241,984
Total capital assets not being depreciated	519,673	213,312	-	732,985
Capital assets being depreciated				
Land improvements	1,466,892			1,466,892
Buildings	34,427,880	472,850	66,144	34,834,586
Major movable equipment	14,838,167	1,495,649	753,539	15,580,277
Total capital assets being depreciated	50,732,939	1,968,499	819,683	51,881,755
Less accumulated depreciation				
Land improvements	1,104,890	66,271		1,171,161
Buildings	20,415,106	1,470,518	66,144	21,819,480
Major movable equipment	10,376,103	1,956,165	752,650	11,579,618
Total accumulated depreciation	31,896,099	3,492,954	818,794	34,570,259
Total capital assets being depreciated, net	18,836,840	(1,524,455)	889	17,311,496
Capital assets, net	$19,356,513	$ (1,311,143)	$ 889	$18,044,481

At September 30, 2025, the Health System had an outstanding purchase and service agreement commitment of approximately $1,000,000 related to the installation of a CT scanner.

Note G - Long-term Debt

Long-term debt consists of the following:

	2025	2024
3.00% - 5.00% Abilene, Kansas Public Building Commission Refunding Revenue bonds, Series 2017; issued on December 14, 2017, in the original amount of $17,405,000; due serially through December 1, 2035	$ 13,920,000	$ 14,885,000
Add net unamortized premium on bonds	558,806	660,528
	14,478,806	15,545,528
Less current maturities	(1,010,000)	(965,000)
Long-term debt, excluding current maturities	$ 13,468,806	$ 14,580,528

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

Outstanding at October 1, 2023	$ 16,674,315
Principal payments	(1,020,000)
Amortization of premium on bonds issued	(108,787)
Outstanding at September 30, 2024	15,545,528
Principal payments	(965,000)
Amortization of premium on bonds issued	(101,722)
Outstanding at September 30, 2025	$ 14,478,806

On December 14, 2017, the Abilene, Kansas Public Building Commission issued $17,405,000, in Refunding Revenue Bonds, Series 2017 (the 2017 PBC bonds), for the benefit of the Health System pursuant to a Trust Indenture. The proceeds of these bonds were used to (1) pay the costs related to the issuance of the 2017 bonds, and (2) advance refund $6,985,000 of the 2011 PBC bonds and $10,000,000 of the 2012 PBC bonds by making an irrevocable deposit with a trustee. The trustee used that deposit to purchase direct obligations of the United States of America that provided for payment of interest on the refunded (1) 2011 bonds through December 1, 2019, and on that date redeemed $6,985,000 of the refunded debt, and (2) 2012 bonds through December 1, 2022, and on that date redeemed the $10,000,000 of refunded debt, at 100 percent on those dates. As a result of this transaction, a deferred refunding loss was recognized for the difference between the book value of the refunded debt and the amount required to extinguish the debt. This deferred loss is reported as a deferred outflow of resources on the statement of net position and is being amortized into expense over the term of the bonds.

The Pledge of Revenues and Intercreditor Agreement between the Health System and the City of Abilene, Kansas, and Abilene, Kansas Public Building Commission, requires the Health System to transfer to a trustee, on a monthly basis, specified amounts which, when combined with interest earned on the respective funds held by the trustee, will provide sufficient funds to pay the principal and interest on the appropriate due dates. Such transfers were made and are included in assets whose use is limited. The obligations of

Note G - Long-term Debt - Continued

the Health System under the agreement are secured by a pledge of its unrestricted revenues, subject to the right of the Health System to dispose of or encumber property as defined and permitted in the agreement. The agreement also includes certain restrictive covenants relating to the disposition of property, adequacy of insurance coverage, incurrence of additional indebtedness, the level of days cash on hand, and the level of fees and rates charged. The covenant in the agreement requires that fees and rates for services be set at levels sufficient for the Health System to produce income available for debt service in each fiscal year equal to 125 percent of the debt service requirements during that fiscal year for outstanding debt.

Scheduled annual debt service requirements on long-term debt are as follows:

	Principal	Interest	Total
2026	$ 1,010,000	$ 521,444	$ 1,531,444
2027	1,060,000	469,694	1,529,694
2028	1,115,000	415,319	1,530,319
2029	1,175,000	358,069	1,533,069
2030	1,225,000	304,194	1,529,194
2031-2035	6,835,000	795,009	7,630,009
2036	1,500,000	23,437	1,523,437
	$ 13,920,000	$ 2,887,166	$ 16,807,166

Total interest costs incurred are as follows:

	2025	2024
Total interest incurred	$ 588,443	$ 605,010
Amortization of bond premium	(101,722)	(108,787)
Amortization of deferred loss on advance refunding	113,205	119,962
Interest expense	$ 599,926	$ 616,185

Note H - Subscription IT Liabilities

The Health System's subscription IT liabilities are related to software subscriptions. Payments are based on each underlying contract and specific payment terms. The implied interest rates applied to the subscription agreements vary from 7.50 to 8.50 percent. In certain conditions, the vendor is allowed to increase the subscription payment annually. The differences between the original payment schedules and the current payment schedules are considered variable consideration. The variable consideration was not significant for the year ended September 30, 2025.

Note H - Subscription IT Liabilities - Continued

The following is a summary of subscription IT liabilities as of September 30:

	2025
Current portion of subscription IT liabilities	$ 159,926
Noncurrent portion of subscription IT liabilities	343,452
Total subscription IT liabilities	$ 503,378

The following is a summary of changes in subscription IT liabilities:

	2025
Beginning balance at beginning of year	$ -
Obligations incurred	654,048
Principal payments	(150,670)
Outstanding at end of year	$ 503,378

Scheduled subscription IT liability payments are as follows:

	Principal	Interest	Total
2026	$ 159,926	$ 34,151	$ 194,077
2027	150,260	22,997	173,257
2028	86,403	11,971	98,374
2029	51,267	6,685	57,952
2030	55,522	2,430	57,952
Total minimum subscription IT liability payments	$ 503,378	$ 78,234	$ 581,612

Note I - Accrued Compensated Absences

The following is a summary of compensated absences:

	2025	2024
Current portion of compensated absences	$ 138,000	$ 109,000
Noncurrent portion of compensated absences	240,000	188,000
Estimated accrued compensated absences	$ 378,000	$ 297,000

The following is a summary of changes in compensated absences:

	2025	2024
Beginning balance at October 1,	$ 297,000	$ 198,000
Net change	81,000	99,000
Ending balance at September 30,	$ 378,000	$ 297,000

The above balances and changes are reported in the current and long-term amounts due to Salina Regional Health Affiliations.

Note J - Risk Management

The Health System is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of $500,000 per occurrence and up to an annual aggregate of $1,500,000 for all claims made during the policy year. The Health System also has general liability coverage with limits of $1,000,000 per occurrence and up to an annual aggregate of $3,000,000 for all claims made during the year. All coverage is on a claims-made basis. The above policies have been renewed through October 1, 2026.

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

The Health System is involved in litigation and other disputes arising in the normal course of business. After consultation with legal counsel, management believes that these matters will be resolved without material adverse effect on the Health System's future financial position or results from operations.

Note K - Deposits with Financial Institutions

Custodial credit risk is the risk that in an event of a bank failure, a government's deposits may not be returned to it. The Health System's deposit policy of custodial credit risk requires compliance with the provisions of State law. In addition, the Health System and Foundation maintain their cash in banks which are insured by the Federal Deposit Insurance Corporation (FDIC).

Kansas statutes authorize the Health System, with certain restrictions, to deposit or invest in open accounts, time deposits, certificates of deposit, repurchase agreements, the State Treasurer's municipal investment pool, and U.S. Treasury bills and notes. Also, statutes generally require that financial institutions pledge securities with a market value equal to total deposits, except for monies acquired through the receipt of grants, donations, bequests, and gifts, 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, the Federal Home Loan Bank, or the Kansas State Treasurer.

The carrying amount of the Health System's deposits with financial institutions was $13,461,310 and the bank balances were $13,576,886 at September 30, 2025. The bank balances are categorized as follows at September 30, 2025:

Amount insured by the F.D.I.C., or collateralized with securities held by the Health System or by its agent in the Health System's name	$ 5,015,100
Uncollateralized (amount collateralized with securities held in safekeeping by an authorized depository other than the pledging financial institution's trust department, but not in the Health System's name)	7,213,090
Unsecured donated monies not subject to pledging statues not insured or collateralized	305,832
Unsecured amounts not insured or collateralized	1,042,864
	$ 13,576,886

At September 30, 2025, the carrying amount of the Foundation's deposits with financial institutions was $222,508 and the bank balance was $223,287. The entire bank balance was covered by federal depository insurance at September 30, 2025.

Note L - Concentration of Credit Risk

The Health System 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	31 %	29 %
Medicaid	9	8
Blue Cross	12	9
Other third-party payors	22	32
Patients	26	22
	100 %	100 %

Note M - Budgetary Comparison

Kansas statutes require that a fixed annual operating budget be legally adopted for the Health System. All legal annual operating budgets are prepared using the modified accrual basis of accounting, modified further by the encumbrance method of accounting. Revenues are recognized when cash is received. Expenditures include disbursements, accounts payable, and encumbrances. Encumbrances are commitments by the Health System for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. All unencumbered appropriations lapse at year-end. The comparison of the actual expenditures and the budgetary expenditures is as follows.

	2025	2024
Actual expenditures	$ 48,908,946	$ 47,000,055
2024 budgeted expenditures	$ 15,019,593	$ 14,724,150
2025 budgeted expenditures	45,435,351	45,058,780
Total budgeted expenditures	$ 60,454,944	$ 59,782,930

The budgeted expenditures for the year ended September 30, 2025, were computed by taking nine months of the statutory budget for the calendar year ended December 31, 2025, assuming equal expenditures in each month, and three months of the statutory budget for the calendar year ended December 31, 2024, assuming equal expenditures in each month. The budgeted expenditures for the year ended September 30, 2024, were computed by taking nine months of the statutory budget for the calendar year ended December 31, 2024, assuming equal expenditures in each month, and three months of the statutory budget for the calendar year ended December 31, 2023, assuming equal expenditures in each month.

Note N - Retirement Plan

The Health System's workforce are employees of SRHA. SRHA sponsors a defined contribution pension plan (Plan) as authorized by Kansas statues. 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 investment of those contributions.

The Plan covers substantially all employees of the Health System. Employees are eligible to participate in the Plan after completing 60 days of service. To become eligible for contributions made by SRHA, the employee must have completed 12 months of service. Employee contributions vest immediately and contributions made by SRHA vest after three years of service. SRHA matches 50 percent of employee deferrals up to the first 6 percent of included compensation pay. For employees who have completed one year of service and 1,000 hours during the Plan year, SRHA will contribute an annual nonelective contribution of 2 percent of included compensation for employees with less than 10 years of service and 2.5 percent for employees with 10 or more years of credited service.

The Health System recognized pension expense of $716,409 and $736,472 for the years ended September 30, 2025, and 2024, respectively. Employee contributions to the plan were $1,141,464 and $1,071,648 for the years ended September 30, 2025 and 2024, respectively.

Note O - Fair Value Measurements

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 Health System 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.

The asset's or liability's fair value measurement level within the fair value hierarchy 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 Health System for assets measured at fair value on a recurring basis:

Certificates of deposit, money market mutual funds, and common stocks are valued at unadjusted quoted prices for identical securities in active markets.

Note O - Fair Value Measurements - Continued

The following tables set forth, by level, the Health System's assets measured at fair value on a recurring basis:

	September 30, 2025			
	Level 1	Level 2	Level 3	Total
Cash, certificates of deposit, and money market mutual funds	$ 6,381,893	$ -	$ -	$ 6,381,893
Common stocks	60,600			60,600
	$ 6,442,493	$ -	$ -	$ 6,442,493

	September 30, 2024			
	Level 1	Level 2	Level 3	Total
Cash, certificates of deposit, and money market mutual funds	$ 6,167,707	$ -	$ -	$ 6,167,707
Common stocks	60,688			60,688
	$ 6,228,395	$ -	$ -	$ 6,228,395

Note P - Related Parties

Abilene Housing, Inc.

As discussed in Note A2, the Health System is responsible for appointing members of AHI's Board of Directors. The Health System does not make any appropriations to AHI or receive any distributions. The following is a summary of the assets, liabilities, net position, revenues and expenses, and changes in net position of AHI as of and for the periods ended:

	2025	2024
Cash and cash equivalents	$ 801,501	$ 749,373
Investments	456,877	402,470
Total current assets	1,258,378	1,151,843
Capital assets - net	742,743	869,065
Other assets	28,504	25,725
Total assets	$ 2,029,625	$ 2,046,633
Accounts payable	$ 30,659	$ 25,218
Current portion of mortgage payable	89,643	85,100
Other current liabilities	1,179	1,179
Total current liabilities	121,481	111,497
Mortgage payable, excluding current portion	642,640	732,411
Other liabilities	27,685	25,622
Total liabilities	791,806	869,530
Net assets	1,237,819	1,177,103
Total liabilities and net assets	$ 2,029,625	$ 2,046,633
Revenues	$ 641,148	$ 658,411
Management fee paid to Hospital	232,656	258,028
Depreciation and amortization	122,597	137,071
Other expenses	225,179	203,328
Total expenses	580,432	598,427
Change in net assets	$ 60,716	$ 59,984

Note P - Related Parties - Continued

Salina Regional Health Affiliations, LLC

In connection with the Agreement with SRHA, SRHA processes all disbursements and payroll for the Health System. The Health System is charged the actual costs of its employees and the related benefits that are legally employed by SRHA. Due to this, the expenses have continued to be reported as salaries and employee benefits as this is considered a more accurate representation of the true cost of operations. In the year ended September 30, 2024, SRHA loaned the Health System $1,483,885 for the costs of an MRI upgrade. As of September 30, 2025 and 2024, the Health System has a balance due to SRHA totaling $3,673,785 and $3,214,262, respectively. As of September 30, 2025, $927,429 of this liability was in relation to the MRI upgrade. The repayment schedule related to the MRI upgrade at September 30, 2025, is as follows:

2026	$ 741,943
2027	185,486
	$ 927,429

In addition to the actual costs of employees noted above, SRHA provides additional services to the Health System related to management and administrative services, nursing administration, medical records, information technology, support, and supervision of billing activities, etc. These expenses are allocated to SRHA and its related entities based on allocation methodologies intended to estimate the actual expenses incurred. As these are considered services received by the Health System, they have been reflected in the financial statements as operating expenses. These amounts are also reflected as noncapital contributions received from SRHA. Operating expenses incurred and noncapital contributions recognized totaled $6,045,295 and $5,287,407 for the years ended September 30, 2025 and 2024, respectively. Since SRHA employs the Health System's employees, all employee benefits, including health insurance, dental insurance, worker's compensation, and pension plan, are the responsibility of SRHA and the Health System has agreed to reimburse these costs.

Note Q - Assets Held in Community Foundation Custodian Account

On December 28, 2018, an endowment fund was established with The Community Foundation of Dickinson County designated to receive and administer gifts and to provide support to the Health System's Hospice program. Annual fund earnings net of fund expenses and fees may be remitted to the Health System at the discretion of and upon approval of The Community Foundation of Dickinson County's governing board. The market value of the assets held in a custodian account on behalf of the Health System's Hospice program was $1,190,169 as of September 30, 2025. During the years ended September 30, 2025 and 2024, the Health System received fund earnings totaling $52,116 and $55,098, respectively, from this encowment fund. These items are reported in noncapital and capital grants and contributions.

The assets related to this agreement are not included in the accompanying financial statements as the agreement grants variance power over the funds to The Community Foundation of Dickinson County.

Note R - Adoption of New Accounting Standard

The following changes were made to the Health System's 2025 financial statement amounts for the adoption of the new accounting standard described in Note A20.

	Amounts as previously reported	Adoption of accounting standard	Amount as restated
Statement of Net Position			
Liabilities			
Due to Salina Regional Health Affiliations	$ 2,286,834	$ 109,000	$ 2,395,834
Total current liabilities	5,349,992	109,000	5,458,992
Due to Salina Regional Health Affiliations, excluding current portion	927,428	188,000	1,115,428
Total long-term liabilities	15,536,254	188,000	15,724,254
Total liabilities	20,886,246	297,000	21,183,246
Net position			
Unrestricted	11,049,890	(297,000)	10,752,890
Total net position	16,941,281	(297,000)	16,644,281
Statement of Revenues, Expenses, and Changes in Net Position			
Operating expenses			
Salaries and wages	22,655,970	99,000	22,754,970
Total operating expenses	52,762,466	99,000	52,861,466
Operating loss	(4,979,799)	(99,000)	(5,078,799)
Excess of revenues over expenses before capital contributions	1,136,874	(99,000)	1,037,874
Change in net position	1,179,364	(99,000)	1,080,364
Net position, beginning of year	15,761,917	(198,000)	15,563,917
Net position, end of year	16,941,281	(297,000)	16,644,281
Statement of Cash Flows			
Reconciliation of operating loss to net cash provided by operating activities	(4,979,799)	(99,000)	(5,078,799)
Changes in			
Accounts payable and accrued expenses	(230,176)	99,000	(131,176)

Note S - Condensed Combining Information

Condensed financial data for the Health System and its blended component unit as of and for the period ended September 30, 2025, are presented in the following tables:

	Statement of Net Postion - 2025			
	Hospital	Foundation	Eliminations	Consolidated
Assets				
Cash and invested cash	$ 9,678,895	$ 222,508	$ -	$ 9,901,403
Other current assets	10,020,190		(46,016)	9,974,174
Capital assets	17,417,372			17,417,372
Other assets	2,338,474			2,338,474
Total assets	39,454,931	222,508	(46,016)	39,631,423
Deferred outflows of resources	556,543	-	-	556,543
Total assets and deferred outflows of resources	$40,011,474	$ 222,508	$ (46,016)	$40,187,966
Liabilities				
Accounts payable	$ 842,239	$ 4,989	$ (2,071)	$ 845,157
Other current liabilities	4,618,466			4,618,466
Other noncurrent liabilities	14,269,278			14,269,278
Total liabilities	19,729,983	4,989	(2,071)	19,732,901
Net position				
Net investment in capital assets	2,991,730			2,991,730
Restricted				
For debt service	2,661,439			2,661,439
Expendable for capital acquisitions		6,898		6,898
For specific operating activities		162,293	(43,945)	118,348
Unrestricted	14,628,322	48,328		14,676,650
Total net position	20,281,491	217,519	(43,945)	20,455,065
Total liabilities and net position	$40,011,474	$ 222,508	$ (46,016)	$40,187,966

Note S - Condensed Combining Information - Continued

	Statement of Revenues, Expenses, and Changes in Net Position - 2025			
	Hospital	Foundation	Eliminations	Consolidated
Operating revenue				
Net patient service revenue	$46,911,314	$ -	$ -	$46,911,314
Other revenues	4,167,585		(28,842)	4,138,743
Total operating revenues	51,078,899	-	(28,842)	51,050,057
Operating expenses				
Salaries and wages and employee benefits	27,598,590		162	27,598,752
Supplies and other	23,511,904		6,832	23,518,736
Depreciation and amortization	3,055,358			3,055,358
Total operating expenses	54,165,852	-	6,994	54,172,846
Operating loss	(3,086,953)		(35,836)	(3,122,789)
Nonoperating revenues (expenses)	6,856,832	(30,112)	46,600	6,873,320
Excess of revenues over (under) expenses before capital grants and contributions	3,769,879	(30,112)	10,764	3,750,531
Capital grants and contributions	60,253			60,253
Change in net position	3,830,132	(30,112)	10,764	3,810,784
Net position beginning of year, as restated	16,451,359	247,631	(54,709)	16,644,281
Ending net position	$20,281,491	$ 217,519	$ (43,945)	$20,455,065

	Statement of Cash Flows - 2025			
	Hospital	Foundation	Eliminations	Consolidated
Net cash provided (used) by				
Operating activities	$ 6,818,971	$ -	$ (46,600)	$ 6,772,371
Noncapital financing activities	837,041	(39,674)	58,820	856,187
Capital and related financing activities	(4,387,806)			(4,387,806)
Investing activities	562,853	4,918	(12,220)	555,551
Net change in cash and cash equivalents	3,831,059	(34,756)	-	3,796,303
Cash and cash equivalents at beginning of period	12,345,304	257,264		12,602,568
Cash and cash equivalents at end of period	$16,176,363	$ 222,508	$ -	$16,398,871

Note S - Condensed Combining Information - Continued

Condensed financial data for the Health System and its blended component unit as of and for the period ended September 30, 2024, are presented in the following tables:

	Statement of Net Postion - 2024			
	Hospital	Foundation	Eliminations	Consolidated
Assets				
Cash and invested cash	$ 6,097,899	$ 257,264	$ -	$ 6,355,163
Other current assets	10,479,735		(62,218)	10,417,517
Capital assets	18,044,481			18,044,481
Other assets	2,340,618			2,340,618
Total assets	36,962,733	257,264	(62,218)	37,157,779
Deferred outflows of resources	669,748	-	-	669,748
Total assets and deferred outflows of resources	$37,632,481	$ 257,264	$ (62,218)	$ 37,827,527
Liabilities				
Accounts payable	$ 840,408	$ 9,633	$ (7,509)	$ 842,532
Other current liabilities	4,616,460			4,616,460
Noncurrent liabilities	15,724,254			15,724,254
Total liabilities	21,181,122	9,633	(7,509)	21,183,246
Net position				
Net investment in capital assets	3,168,701			3,168,701
Restricted				
For debt service	2,586,571			2,586,571
Expendable for capital acquisitions		28,134		28,134
For specific operating activities		162,694	(54,709)	107,985
Unrestricted	10,696,087	56,803		10,752,890
Total net position	16,451,359	247,631	(54,709)	16,644,281
Total liabilities and net position	$37,632,481	$ 257,264	$ (62,218)	$ 37,827,527

Note S - Condensed Combining Information - Continued

	Statement of Revenues, Expenses, and Changes in Net Position - 2024			
	Hospital	Foundation	Eliminations	Consolidated
Operating revenue				
Net patient service revenue	$44,161,628	$ -	$ -	$ 44,161,628
Other revenues	3,660,493		(39,454)	3,621,039
Total operating revenues	47,822,121	-	(39,454)	47,782,667
Operating expenses				
Salaries and wages and employee benefits,	27,436,404		179	27,436,583
Supplies and other	21,929,615		2,314	21,931,929
Depreciation and amortization	3,492,954			3,492,954
Total operating expenses	52,858,973	-	2,493	52,861,466
Operating loss	(5,036,852)		(41,947)	(5,078,799)
Nonoperating revenues (expenses)	6,062,206	(61)	54,528	6,116,673
Excess of revenues over (under) expenses before capital grants and contributions	1,025,354	(61)	12,581	1,037,874
Capital grants and contributions	42,490			42,490
Change in net position	1,067,844	(61)	12,581	1,080,364
Net position beginning of year, as restated	15,383,515	247,692	(67,290)	15,563,917
Ending net position	$16,451,359	$ 247,631	$ (54,709)	$ 16,644,281

	Statement of Cash Flows - 2024			
	Hospital	Foundation	Eliminations	Consolidated
Net cash provided (used) by				
Operating activities	$ 5,236,613	$ -	$ (54,528)	$ 5,182,085
Noncapital financing activities	705,104	160	58,181	763,445
Capital and related financing activities	(3,841,057)			(3,841,057)
Investing activities	687,421	5,079	(3,653)	688,847
Net change in cash and cash equivalents	2,788,081	5,239	-	2,793,320
Cash and cash equivalents at beginning of period	9,557,223	252,025		9,809,248
Cash and cash equivalents at end of period	$12,345,304	$ 257,264	$ -	$ 12,602,568

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

March 2, 2026

Ms. Tori Bowers, Chief Financial Officer
Memorial Hospital
511 N.E. 10th Street
Abilene, Kansas 67410-0069

Dear Tori:

Enclosed are 15 copies of the audited financial statements and 15 copies each of our communications letter to those charged with governance, and our management letter to the Board of Memorial Hospital for the year ended September 30, 2025. We are also enclosing 15 copies of the Management's Discussion and Analysis. We will email a copy of the audited financial statements directly to the Office of Accounts and Reports and will pay the $300 filing fee as required by state statutes. We will add the filing fee to our billing to you.

Thanks for the opportunity to be of continued service to you. If you have any questions, please call me.

Yours very truly,

Wendling Noe Nelson & Johnson LLC

Eric L. Otting
Member

cab
Enclosures
cc: Kimberly Haverly, CEO

623 SW 10th Avenue, Suite 300, Topeka, Kansas 66612-1679 · (785)233-4226 · (888)272-9665 · FAX: (785)233-6830
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March --, 2026

Office of Accounts and Reports
Municipal Services Team
700 S.W. Harrison, Suite 300
Topeka, Kansas 66603

Dear Sir:

Enclosed is a check in the amount of $300.00 for the filing fee for the audited financial statements of Memorial Hospital of Hospital District #1 of Dickinson County, Kansas d/b/a Memorial Health System for the year ended September 30, 2025, which was e-filed to your office.

If anything further is needed, please contact me.

Yours very truly,

Wendling Noe Nelson & Johnson LLC

Eric L. Otting
Member

cab
Enclosure

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