Stevens County Hospital
A Component Unit of
Stevens County, Kansas

Independent Auditor's Report
and Financial Statements

December 31, 2025 and 2024

Stevens County Hospital
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December 31, 2025 and 2024

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Independent Auditor's Report

Board of Directors
Stevens County Hospital
Hugoton, Kansas

Opinion

We have audited the financial statements of Stevens County Hospital (Hospital), a component unit of Stevens County, Kansas, as of and for the years ended December 31, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of Stevens County Hospital as of December 31, 2025 and 2024, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Forvis Mazars, LLP

Wichita, Kansas
November 10, 2026

Stevens County Hospital
A Component Unit of Stevens County, Kansas
Balance Sheets
December 31, 2025 and 2024

	2025	2024
ASSETS		
Current Assets		
Cash	$ 1,941,108	$ 758,372
Short-term certificates of deposit	6,175	5,815
Patient accounts receivable, net of allowance; 2025 - $1,319,000; 2024 - $1,319,000	2,810,784	2,305,407
Accounts receivable – retail pharmacy	141,589	426,442
Estimated amounts due from third-party payers	-	820,000
Supplies	290,369	229,140
Prepaid expenses and other	263,002	193,447
Total Current Assets	5,453,027	4,738,623
Capital Assets, Net	15,444,117	16,349,090
Subscription Asset, Net	176,822	208,492
Total Assets	$ 21,073,966	$ 21,296,205
LIABILITIES AND NET POSITION		
Current Liabilities		
Current portion of subscription liability	$ 31,012	$ 29,798
Accounts payable	661,077	1,359,103
Accrued expenses	1,031,475	969,327
Estimated amounts due to third-party payers	523,732	-
Total Current Liabilities	2,247,296	2,358,228
Subscription Liability	159,109	190,121
Total Liabilities	2,406,405	2,548,349
Net Position		
Net investment in capital assets	15,430,818	16,337,663
Unrestricted	3,236,743	2,410,193
Total Net Position	18,667,561	18,747,856
Total Liabilities and Net Position	$ 21,073,966	$ 21,296,205

Stevens County Hospital
A Component Unit of Stevens County, Kansas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2025 and 2024

	2025	2024
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts, 2025 - $818,423; 2024 - $654,549	$ 22,428,695	$ 20,915,523
Other	35,416	34,833
Total Operating Revenues	22,464,111	20,950,356
Operating Expenses		
Salaries and wages	11,551,403	10,780,811
Employee benefits	3,005,957	2,853,239
Purchased services and professional fees	2,281,793	2,064,241
Supplies and other	4,622,487	4,294,937
Retail pharmacy supplies	1,733,315	1,310,736
Depreciation	1,055,754	1,069,020
Amortization	31,670	31,670
Total Operating Expenses	24,282,379	22,404,654
Operating Loss	(1,818,268)	(1,454,298)
Nonoperating Revenues (Expenses)		
Noncapital appropriations – Stevens County	900,000	1,000,000
Interest income	18,626	33,119
Interest expense	(8,254)	(9,421)
Noncapital grants and gifts	827,601	227,515
Total Nonoperating Revenues	1,737,973	1,251,213
Decrease in Net Position	(80,295)	(203,085)
Net Position, Beginning of Year	18,747,856	18,950,941
Net Position, End of Year	$ 18,667,561	$ 18,747,856

Stevens County Hospital
A Component Unit of Stevens County, Kansas
Statements of Cash Flows
Years Ended December 31, 2025 and 2024

	2025	2024
Operating Activities		
Receipts from and on behalf of patients	$ 23,551,903	$ 19,617,900
Payments to suppliers and contractors	(9,466,405)	(7,217,518)
Payments to and on behalf of employees	(14,495,212)	(13,967,238)
Other receipts, net	35,416	34,833
Net Cash Used in Operating Activities	(374,298)	(1,532,023)
Noncapital Financing Activities		
Noncapital appropriations – Stevens County	900,000	1,000,000
Noncapital grants and gifts	827,601	227,515
Net Cash Provided by Noncapital Financing Activities	1,727,601	1,227,515
Capital and Related Financing Activities		
Principal paid on subscription liability	(29,798)	(28,632)
Interest paid on subscription liability	(8,254)	(9,421)
Purchase of capital assets	(150,781)	(410,075)
Net Cash Used in Capital and Related Financing Activities	(188,833)	(448,128)
Investing Activities		
Interest income received	18,626	33,119
Change in certificates of deposit	(360)	(301)
Net Cash Provided by Investing Activities	18,266	32,818
Increase (Decrease) in Cash	1,182,736	(719,818)
Cash, Beginning of Year	758,372	1,478,190
Cash, End of Year	$ 1,941,108	$ 758,372

Stevens County Hospital
A Component Unit of Stevens County, Kansas
Statements of Cash Flows
Years Ended December 31, 2025 and 2024 **(Continued)**

	2025	2024
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (1,818,268)	$ (1,454,298)
Depreciation	1,055,754	1,069,020
Amortization	31,670	31,670
Provision for uncollectible accounts	818,423	654,549
Changes in operating assets and liabilities		
Patient accounts receivable, net	(1,038,947)	(1,042,172)
Estimated amounts due from and to third-party payers	1,343,732	(910,000)
Accounts payable and accrued expenses	(635,878)	80,183
Supplies and prepaid expenses and other	(130,784)	39,025
Net Cash Used in Operating Activities	$ (374,298)	$ (1,532,023)

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

Nature of Operations and Reporting Entity

Stevens County Hospital (the Hospital) is an acute care hospital located in Hugoton, Kansas. The Hospital is a component unit of Stevens County (County) and the Board of County Commissioners appoints members to the Board of Directors of the Hospital. The Hospital primarily earns revenues by providing inpatient, outpatient, and emergency care services to patients in the Stevens County area. It also operates a long-term care facility and retail pharmacy in the same geographic area.

Basis of Accounting and Presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific, such as county appropriations, interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position is available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets 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 those estimates.

Noncapital Appropriations – Stevens County

The Hospital received approximately 4% of its financial support from county appropriations derived from property taxes levied by the County in both 2025 and 2024. One hundred percent of these funds were used to support operations in both years.

Property taxes are assessed by the County in November of one year and are received beginning in January of the following year. Intergovernmental revenue is recognized in full in the year in which use is first permitted.

Risk Management

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters, except workers' compensation and property and casualty coverage. Settled claims have not exceeded commercial coverage in any of the three preceding years.

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The workers' compensation premiums are subject to retrospective adjustment based upon the overall performance of the fund. Property and casualty coverage is provided through a fund managed by the Kansas Counties Association Multi-Line Pool. The property and casualty premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place to cover claims incurred but not reported for both workers' compensation and property and casualty risks.

Patient Accounts Receivable

The Hospital reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients, and others. The Hospital provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions.

Supplies

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the Hospital:

Land improvements	10 – 40 years
Building	5 – 40 years
Fixed equipment	5 – 25 years
Major moveable equipment	3 – 20 years

Subscription Assets

Subscription assets are initially recorded at the initial measurement of the subscription 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 assets are amortized on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying IT asset.

Capital and Subscription Asset Impairment

The Hospital evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss.

No asset impairment was recognized during the years ended December 31, 2025 and 2024.

Compensated Absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position of the Hospital is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purpose or construction of those assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

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

Income Taxes

As an essential government function of the County, the Hospital is exempt from income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

Note 2: Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

Medicare. The Hospital is recognized as a critical access hospital (CAH) and is paid at one hundred one percent (101%) of allowable costs for certain inpatient and outpatient services. The Hospital is reimbursed for certain services and cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor. Rural health clinic services are paid on a cost basis. Home health services are paid on a per-episode basis using clinical diagnostic and other factors.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. The add-on percentage may be rebased at some time in the future.

Services rendered for long-term care facility residents are reimbursed under a prospective rate, with annual cost reports submitted to the Medicaid program. Effective July 1, 2016, rates are computed using an average of the three most recent filed calendar cost reports and changes in the Medicaid resident case mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

Approximately 45% and 46% of net patient service revenues are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2025 and 2024, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Note 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The Hospital's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Kansas, bonds of any city, county, school district or special road district of the state of Kansas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At December 31, 2025 and 2024, respectively, $1,720,563 and $568,098 of the Hospital's bank balances of $2,220,563 and $1,068,098 were exposed to custodial credit risk as follows:

	2025	2024
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	$ 1,720,563	$ 568,098

Summary of Carrying Values

The carrying values of deposits shown above are included in the balance sheets as follows:

	2025	2024
Carrying value		
Deposits	$ 1,947,283	$ 764,187
Included in the following balance sheet captions		
Cash	$ 1,941,108	$ 758,372
Short-term certificates of deposit	6,175	5,815
	$ 1,947,283	$ 764,187

Note 4: Patient Accounts Receivable

The Hospital grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31, 2025 and 2024, consisted of:

	2025	2024
Medicare	$ 693,369	$ 797,529
Medicaid	573,375	350,534
Blue Cross	439,451	278,491
Other third-party payers	515,755	311,179
Patients	1,907,834	1,886,674
	4,129,784	3,624,407
Less allowance for uncollectible accounts	1,319,000	1,319,000
	$ 2,810,784	$ 2,305,407

Note 5: Capital and Subscription Assets

Capital assets activity for the years ended December 31, 2025 and 2024, was:

	2025				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements	$ 127,128	$ -	$ -	$ -	$ 127,128
Buildings	24,715,871	-		-	24,715,871
Fixed equipment	3,179,066	13,724	-	-	3,192,790
Major moveable equipment	5,905,763	137,057	-	-	6,042,820
	33,927,828	150,781	-	-	34,078,609
Less accumulated depreciation					
Land improvements	104,209	1,595	-	-	105,804
Buildings	10,366,189	598,086	-	-	10,964,275
Fixed equipment	1,689,658	215,974	-	-	1,905,632
Major moveable equipment	5,418,682	240,099	-	-	5,658,781
	17,578,738	1,055,754	-	-	18,634,492
Capital assets, net	$ 16,349,090	$ (904,973)	$ -	$ -	$ 15,444,117

	2024				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land improvements	$ 103,580	$ 23,548	$ -	$ -	$ 127,128
Buildings	24,783,860	18,578	(86,567)	-	24,715,871
Fixed equipment	3,062,219	299,822	(182,975)	-	3,179,066
Major moveable equipment	7,015,597	68,127	(1,177,961)	-	5,905,763
	34,965,256	410,075	(1,447,503)	-	33,927,828
Less accumulated depreciation					
Land improvements	103,218	991	-	-	104,209
Buildings	9,853,731	599,025	(86,567)	-	10,366,189
Fixed equipment	1,662,642	209,991	(182,975)	-	1,689,658
Major moveable equipment	6,337,630	259,013	(1,177,961)	-	5,418,682
	17,957,221	1,069,020	(1,447,503)	-	17,578,738
Capital assets, net	$ 17,008,035	$ (658,945)	$ -	$ -	$ 16,349,090

Subscription asset activity for the years ended December 31, 2025 and 2024, was:

	2025				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Subscription asset	$ 303,502	$ -	$ -	$ -	$ 303,502
Less accumulated amortization Subscription asset	95,010	31,670	-	-	126,680
Subscription Asset, Net	$ 208,492	$ (31,670)	$ -	$ -	$ 176,822

	2024				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Subscription asset	$ 303,502	$ -	$ -	$ -	$ 303,502
Less accumulated amortization Subscription asset	63,340	31,670	-	-	95,010
Subscription Asset, Net	$ 240,162	$ (31,670)	$ -	$ -	$ 208,492

Note 6: Medical Malpractice Claims

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium, which provides $500,000 of coverage for each medical incident and $1,500,000 of aggregate coverage for the policy years ending December 31, 2025 and 2024, respectively. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional $500,000 of coverage for each medical incident and $1,500,000 of aggregate coverage for the policy years ending December 31, 2025 and 2024, respectively.

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the future.

Note 7: Long-term Obligations

The following is a summary of long-term obligation transactions for the Hospital for the years ended December 31, 2025 and 2024:

	2025				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Subscription liability	$ 219,919	$ -	$ 29,798	$ 190,121	$ 31,012
Total long-term obligations	$ 219,919	$ -	$ 29,798	$ 190,121	$ 31,012

	2024				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Subscription liability	$ 248,551	$ -	$ 28,632	$ 219,919	$ 29,798
Total long-term obligations	$ 248,551	$ -	$ 28,632	$ 219,919	$ 29,798

Subscription Liability

The Hospital has one subscription-based information technology arrangement (SBITA), the term of which expires in 2031. The subscription requires monthly payments of approximately $3,171.

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

Year Ended December 31	Total to be Paid	Principal	Interest
2026	$ 38,052	$ 31,012	$ 7,040
2027	38,052	32,275	5,777
2028	38,052	33,590	4,462
2029	38,052	34,958	3,094
2030	38,053	36,383	1,670
2031	22,196	21,903	293
	$ 212,457	$ 190,121	$ 22,336

Note 8: Defined Contribution Plan

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by the Board of County Commissioners. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payrolls was 4% for both 2025 and 2024. Contributions actually made by plan members aggregated $187,415 and $148,294 during 2025 and 2024, respectively. Contributions actually made by the Hospital aggregated $222,634 and $217,116 during 2025 and 2024, respectively.

Note 9: Charity Care

The costs of charity care provided under the Hospital's charity care policy were $86,766 and $53,843 for 2025 and 2024, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.