Morris County Hospital

A Component Unit of Morris County, Kansas

Independent Auditor's Report and Financial Statements

December 31, 2025 and 2024

Morris County Hospital
A Component Unit of Morris County, Kansas
Contents
December 31, 2025 and 2024

Independent Auditor's Report 1

Financial Statements

Balance Sheets 3

Statements of Revenues, Expenses and Changes in Net Position 5

Statements of Cash Flows 6

Notes to Financial Statements 8

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Independent Auditor's Report

Board of Trustees
Morris County Hospital
Council Grove, Kansas

Opinion

We have audited the financial statements of Morris County Hospital (Hospital), a component unit of Morris 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 Morris 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) and the provisions of 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 Morris County 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 Morris County 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 Morris County 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 Morris County 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
July 14, 2026

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

	2025	2024
ASSETS		
Current Assets		
Cash and cash equivalents	$ 582,099	$ 513,887
Restricted cash	355,129	300,644
Short-term investments	769,918	661,669
Patient accounts receivable, net of allowance; 2025 - $2,346,749, 2024 - $1,556,000	3,922,903	3,897,033
Estimated amounts due from third-party payers	468,010	-
Other receivables	1,127,523	1,044,563
Supplies	518,933	510,631
Prepaid expenses	477,778	414,337
Total Current Assets	8,222,293	7,342,764
Noncurrent Cash and Investments		
Board designated for capital improvements	2,291,087	3,335,605
Capital Assets, Net	6,530,947	7,005,060
Lease Assets, Net	481,546	419,457
Subscription Assets, Net	2,109,406	2,316,266
Physician Receivable	46,906	46,906
Total Assets	$ 19,682,185	$ 20,466,058

Morris County Hospital
A Component Unit of Morris County, Kansas
Balance Sheets
December 31, 2025 and 2024 **(Continued)**

	2025	2024
LIABILITIES AND NET POSITION		
Current Liabilities		
Current maturities of long-term debt	$ 165,000	$ 160,000
Current portion of lease liabilities	101,321	231,710
Current portion of subscription liability	348,649	309,602
Accounts payable	729,081	867,924
Accrued payroll and withholdings	194,045	182,754
Accrued employee benefits	690,490	547,710
Accrued interest payable	49,087	47,904
Estimated amounts due to third-party payers	-	330,870
Total Current Liabilities	2,277,673	2,678,474
Long-term Debt	2,505,327	2,668,346
Long-term Lease Liabilities	99,674	50,003
Subscription Liability	1,904,802	2,141,234
Total Liabilities	6,787,476	7,538,057
Net Position		
Net investment in capital assets	3,997,126	4,179,888
Restricted - expendable for		
Capital acquisitions	355,129	300,644
Unrestricted	8,542,454	8,447,469
Total Net Position	12,894,709	12,928,001
Total Liabilities and Net Position	$ 19,682,185	$ 20,466,058

Morris County Hospital
A Component Unit of Morris 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 - $885,570, 2024 - $1,389,452	$ 18,737,372	$ 17,074,633
Other	2,226,155	1,518,797
Total Operating Revenues	20,963,527	18,593,430
Operating Expenses		
Salaries and wages	9,135,783	7,827,177
Employee benefits	2,112,386	1,529,403
Supplies and other	3,559,293	3,871,064
Contracts	5,883,047	5,266,742
Depreciation	720,529	717,986
Amortization	467,235	455,368
Total Operating Expenses	21,878,273	19,667,740
Operating Loss	(914,746)	(1,074,310)
Nonoperating Revenues (Expenses)		
Noncapital contributions	177,623	822,588
Noncapital appropriations - Morris County	606,418	561,224
Council Grove Assisted Living, LLC gains (losses)	1,473	(24,402)
Investment income	254,166	235,904
Interest expense	(212,711)	(229,416)
Total Nonoperating Revenues	826,969	1,365,898
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Gifts	(87,777)	291,588
Capital Grants and Gifts	54,485	124,444
Increase (Decrease) in Net Position	(33,292)	416,032
Net Position, Beginning of Year	12,928,001	12,511,969
Net Position, End of Year	$ 12,894,709	$ 12,928,001

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

	2025	2024
Cash Flows From Operating Activities		
Receipts from and on behalf of patients	$ 17,912,622	$ 16,769,820
Payments to suppliers and contractors	(9,490,833)	(9,031,412)
Payments to employees	(11,094,098)	(9,324,599)
Other receipts, net	2,143,195	931,393
Net Cash Used in Operating Activities	(529,114)	(654,798)
Cash Flows From Noncapital Financing Activities		
Noncapital contributions	177,623	822,588
Noncapital appropriations - Morris County	606,418	561,224
Net Cash Provided by Noncapital Financing Activities	784,041	1,383,812
Cash Flows From Capital and Related Financing Activities		
Capital grants and gifts	54,485	124,444
Purchase of capital assets	(428,509)	(665,572)
Principal paid on long-term debt	(158,019)	(147,942)
Interest paid on notes payable to banks and long-term debt	(110,172)	(117,242)
Principal paid on leases payable	(240,065)	(170,468)
Interest paid on leases payable	(6,353)	(6,458)
Principal paid on subscription liability	(340,502)	(297,482)
Interest paid on subscription liability	(95,003)	(104,518)
Net Cash Used in Capital and Related Financing Activities	(1,324,138)	(1,385,238)
Cash Flows From Investing Activities		
Purchase of investments	(1,200,000)	(875,556)
Proceeds from disposition of investments	2,296,120	702,042
Change in noncurrent investments	(158,378)	-
Physician guarantee payments received	-	6,094
Investment income	254,166	235,904
Net Cash Provided by Investing Activities	1,191,908	68,484
Increase (Decrease) in Cash and Cash Equivalents	122,697	(587,740)
Cash and Cash Equivalents, Beginning of Year	814,531	1,402,271
Cash and Cash Equivalents, End of Year	$ 937,228	$ 814,531

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

	2025	2024
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	$ 582,099	$ 513,887
Restricted cash	355,129	300,644
	$ 937,228	$ 814,531
Reconciliation of Net Operating Loss to Net Cash Used in Operating Activities		
Operating loss	$ (914,746)	$ (1,074,310)
Provision for uncollectible accounts	885,570	1,389,452
Depreciation	720,529	717,986
Amortization	467,235	455,368
Changes in operating assets and liabilities		
Patient accounts receivable	(911,440)	(2,089,135)
Estimated amounts due from and to third-party payers	(798,880)	394,870
Other receivables	(82,960)	(587,404)
Supplies	(8,302)	(50,651)
Prepaid expenses	(63,441)	(51,261)
Accounts payable	23,250	208,306
Accrued payroll and withholdings	11,291	45,213
Accrued employee benefits	142,780	(13,232)
Net Cash Used in Operating Activities	$ (529,114)	$ (654,798)
Noncash Investing, Capital and Financing Activities		
Capital asset acquisitions included in accounts payable	$ -	$ 162,093
Lease obligation incurred for lease assets	$ 159,347	$ 187,497
IT subscription obligation incurred for subscription-based IT assets	$ 143,117	$ -

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

Nature of Operations and Reporting Entity

Morris County Hospital (Hospital) is a county-owned, general hospital located in Council Grove, Kansas with a licensed bed capacity of 21 beds. The Hospital is considered a component unit of Morris County, Kansas. The Hospital primarily earns revenues by providing inpatient, outpatient, emergency care, and rural health clinic services to patients in the Morris County area.

The Hospital maintains an agreement with Morris County, Kansas (County) to operate the County health department. Under the terms of the agreement, the Hospital is responsible for providing overall administration and all related services for the health department. The Hospital is to receive the equivalent of at least a one mill levy from the County and the use of personal property of the health department. The agreement is renewable for successive one-year terms.

Morris County Hospital Foundation (Foundation) is a Kansas not-for-profit corporation exempt from federal income taxation under Internal Revenue Code Section 501(a) as an organization described in Section 501(c)(3). The Foundation was formed July 22, 1986, and is organized and shall be operated exclusively for the benefit of, to perform the functions of, or to do all things that may appear necessary and useful in accomplishing the purposes of the Hospital. The board of the Foundation is self-perpetuating. Although the Hospital does not control the timing or amount of receipts from the Foundation, the majority of the Foundation's resources and related income are restricted by donors for the benefit of the Hospital. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the Hospital, the Foundation is considered a component unit of the Hospital and is included in the financial statements of the Hospital using the blended method. Complete financial statements of the Foundation may be obtained from its administrative offices at the following address:

Morris County Hospital Foundation
600 North Washington
Council Grove, Kansas 66846

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, liabilities, and deferred outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific such as county appropriations, investment 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 are 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, liabilities and deferred inflows and outflows of resources 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.

Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2025 and 2024, cash equivalents consisted of certificates of deposit and money market accounts.

Investments and Investment Income

Noncurrent cash and investments include short-term investments (assets held by the Foundation), and designated assets set aside by the Board of Trustees for capital improvements. The Board of Trustees retains control over these assets and may, at its discretion, subsequently use these assets for other purposes. Short-term investments (assets held by the Foundation) consist of investments in U.S. Treasury securities, money market funds and mutual funds, which are carried at fair value, nonnegotiable certificate of deposit, which is carried at amortized cost, and an investment in equity investee (42% interest in net assets of Council Grove Assisted Living, LLC), which is reported on the equity method of accounting. All mutual funds are carried at fair value based upon readily determinable market values. Designated assets set aside by the Board of Trustees consist of certificates of deposit.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

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 or market. Costs are determined using the first-in, first-out (FIFO) method.

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 – 15 years
Buildings	5 – 40 years
Equipment	5 – 20 years

Lease Assets

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Subscription Assets

Subscription assets are initially recorded at the initial measurement of the subscription liability, plus subscription payments made at, and certain prepayments made 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, Lease and Subscription Asset Impairment

The Hospital evaluates capital, lease, and subscription assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital, lease or subscription asset has occurred. If a capital, lease or subscription asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation or accumulated amortization 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. Employees with greater than 15 years of service vest in sick leave. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date.

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; professional liability; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Bond Discount

Bond discount is being amortized over the life of the related debt using the effective interest method. The unamortized bond discount is included as a reduction to revenue bonds payable and is reflected as long-term debt in the accompanying balance sheets. The amortization of the bond discount is included as a component of interest expense.

Net Position

Net position of the Hospital is classified in three components on its balance sheets.

- Net investment in capital assets consists of capital, lease and subscription assets net of accumulated depreciation and amortization and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.

- Restricted expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Hospital.

- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

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.

Noncapital Appropriations – Morris County

The Hospital received approximately 3% of its financial support from noncapital appropriations from Morris County property tax levy in 2025 and 2024.

Property taxes are assessed on a calendar basis and are received beginning January 1 of each year. Revenue from noncapital appropriations – Morris County is recognized in full in the year in which use is first permitted.

Income Taxes

As an essential government function of the County, the Hospital is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income.

The Foundation has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, the Foundation is subject to federal income tax on any unrelated business taxable income. The Foundation files tax returns in the U.S. federal jurisdiction.

Note 2. Deposits and Investments

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, $2,301,767 and $3,405,154 of the Hospital's bank balances of $3,059,018 and $4,306,469 were exposed to custodial credit risk as follows:

	2025	2024
Uninsured and collateral held by pledging financial institution	$ 2,301,767	$ 3,405,154

At December 31, 2025 and 2024, the Foundation's bank balances were $195,367 and $136,838, respectively. At December 31, 2025 and 2024, the Foundation's cash accounts did not exceed federally insured limits.

Investments

The Hospital may legally invest in direct obligations guaranteed as to the principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

As of December 31, 2025 and 2024, the Hospital has the following investments, which are entirely held at the Foundation:

Type	2025	2024
Mutual funds - equity ###	$ 588,126	$ 491,792
Mutual funds - fixed income ###	149,435	141,431
Certificate of deposit ***	106,225	103,787
Equity investment ^^^	(73,868)	(75,341)
	$ 769,918	$ 661,669

Carried at fair value

*** Carried at amortized cost

^^^ Reported on the equity investment of accounting

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the Foundation's investment policy limits its investment portfolio to maturities of 10 years or less unless otherwise directed.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Foundation will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk. The Foundation's investment policy limits the amount that may be invested in any one issuer to the following maximum percentages:

Cash and certificates of deposit	25%
Fixed income	70%
Equity and other investments	60%

Summary of Carrying Values

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

	2025	2024
Carrying value		
Deposits	$ 3,227,865	$ 4,149,686
Investments	769,918	661,669
Cash on hand	450	450
	$ 3,998,233	$ 4,811,805
Included in the following balance sheet captions		
Cash and cash equivalents	$ 582,099	$ 513,887
Restricted cash	355,129	300,644
Short-term investments	769,918	661,669
Board designated for capital improvements	2,291,087	3,335,605
	$ 3,998,233	$ 4,811,805

Investment Income

Investment income for the years ended December 31 consisted of:

	2025	2024
Interest and dividend income	$ 149,827	$ 145,596
Net increase in fair value of investments	104,339	90,308
	$ 254,166	$ 235,904

Note 3. 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 consisted of:

	2025	2024
Medicare	$ 911,256	$ 1,521,299
Medicaid	111,678	200,086
Blue Cross	313,142	341,372
Commercial	1,016,980	956,258
Self-pay	3,916,596	2,434,018
	6,269,652	5,453,033
Less allowance for uncollectible accounts	2,346,749	1,556,000
	$ 3,922,903	$ 3,897,033

Note 4. Capital, Lease and Subscription Assets

Capital assets activity for the years ended December 31 was:

	2025				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 100,644	$ -	$ -	$ -	$ 100,644
Land improvements	250,972	9,791	-	-	260,763
Buildings and leasehold improvements	12,145,124	-	-	-	12,145,124
Fixed equipment	3,870,521	-	-	-	3,870,521
Moveable equipment	9,464,387	3,858	-	-	9,468,245
Construction in progress	56,023	232,767	-	-	288,790
	25,887,671	246,416	-	-	26,134,087
Less accumulated depreciation					
Land improvements	(233,456)	(3,542)	-	-	(236,998)
Buildings and leasehold improvements	(6,548,935)	(379,829)	-	-	(6,928,764)
Fixed equipment	(3,670,708)	(7,561)	-	-	(3,678,269)
Moveable equipment	(8,429,512)	(329,597)	-	-	(8,759,109)
	(18,882,611)	(720,529)	-	-	(19,603,140)
Capital assets, net	$ 7,005,060	$ (474,113)	$ -	$ -	$ 6,530,947

	2024				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 100,644	$ -	$ -	$ -	$ 100,644
Land improvements	238,472	12,500	-	-	250,972
Buildings and leasehold improvements	12,088,664	-	-	56,460	12,145,124
Fixed equipment	3,870,521	-	-	-	3,870,521
Moveable equipment	8,747,618	320,455	-	396,314	9,464,387
Construction in progress	114,747	394,050	-	(452,774)	56,023
	25,160,666	727,005	-	-	25,887,671
Less accumulated depreciation					
Land improvements	(231,178)	(2,278)	-	-	(233,456)
Buildings and leasehold improvements	(6,162,797)	(386,138)	-	-	(6,548,935)
Fixed equipment	(3,656,648)	(14,060)	-	-	(3,670,708)
Moveable equipment	(8,114,002)	(315,510)	-	-	(8,429,512)
	(18,164,625)	(717,986)	-	-	(18,882,611)
Capital assets, net	$ 6,996,041	$ 9,019	$ -	$ -	$ 7,005,060

Lease assets activity for the years ended December 31 was:

	2025				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Moveable equipment	$ 583,153	$ 179,347	$ -	$ -	$ 762,500
Buildings and leasehold improvements	285,022	-	-	-	285,022
	868,175	179,347	-	-	1,047,522
Less accumulated amortization					
Moveable equipment	(446,343)	(88,756)	-	-	(535,099)
Buildings and leasehold improvements	(2,375)	(28,502)	-	-	(30,877)
	(448,718)	(117,258)	-	-	(565,976)
Lease assets, net	$ 419,457	$ 62,089	$ -	$ -	$ 481,546

	2024				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Moveable equipment	$ 583,153	$ -	$ -	$ -	$ 583,153
Buildings and leasehold improvements	-	285,022	-	-	285,022
	583,153	285,022	-	-	868,175
Less accumulated amortization					
Moveable equipment	(324,245)	(122,098)	-	-	(446,343)
Buildings and leasehold improvements	-	(2,375)	-	-	(2,375)
	(324,245)	(124,473)	-	-	(448,718)
Lease assets, net	$ 258,908	$ 160,549	$ -	$ -	$ 419,457

Subscription assets activity for the years ended December 31 was:

	2025				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Subscription IT assets	$ 3,308,951	$ 143,117	$ -	$ -	$ 3,452,068
Less accumulated amortization					
Subscription IT assets	(992,685)	(349,977)	-	-	(1,342,662)
Subscription assets, net	$ 2,316,266	$ (206,860)	$ -	$ -	$ 2,109,406

	2024				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Subscription IT assets	$ 3,308,951	$ -	$ -	$ -	$ 3,308,951
Less accumulated amortization					
Subscription IT assets	(661,790)	(330,895)	-	-	(992,685)
Subscription assets, net	$ 2,647,161	$ (330,895)	$ -	$ -	$ 2,316,266

Note 5. Professional Liability Claims

The Hospital purchases professional liability insurance under a claims-made policy on a fixed premium basis. 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 near term.

Note 6. Long-term Obligations

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

	2025				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable					
Series 2018A	$ 325,000	$ -	$ 160,000	$ 165,000	$ 165,000
Series 2018B	2,520,000	-	-	2,520,000	-
Total long-term debt	2,845,000	-	160,000	2,685,000	165,000
Long-term liabilities					
Lease liabilities	281,713	159,347	240,065	200,995	101,321
Subscription liability	2,450,836	143,117	340,502	2,253,451	348,649
Total long-term liabilities	2,732,549	302,464	580,567	2,454,446	449,970
Unamortized discount on Series 2018 A&B bonds	(16,654)	-	(1,981)	(14,673)	-
Total long-term obligations	$ 5,560,895	$ 302,464	$ 738,586	$ 5,124,773	$ 614,970

	2024				
	Beginning Balance	Additions	Payments	Ending Balance	Current Portion
Long-term debt					
Revenue bonds payable					
Series 2018A	$ 475,000	$ -	$ 150,000	$ 325,000	$ 160,000
Series 2018B	2,520,000	-	-	2,520,000	-
Total long-term debt	2,995,000	-	150,000	2,845,000	160,000
Long-term liabilities					
Lease liabilities	264,684	187,497	170,468	281,713	231,710
Subscription liability	2,748,318	-	297,482	2,450,836	309,602
Total long-term liabilities	3,013,002	187,497	467,950	2,732,549	541,312
Unamortized discount on Series 2018 A&B bonds	(18,712)	-	(2,058)	(16,654)	-
Total long-term obligations	$ 5,989,290	$ 187,497	$ 615,892	$ 5,560,895	$ 701,312

Revenue Bonds Payable – Series 2018A

On August 13, 2018, the Hospital issued $1,175,000 in Series 2018A Refunding Revenue Bonds with an average interest rate of 3.00% to advance refund $1,175,000 of outstanding 2011A Series bonds with an average interest rate of 3.21%. The net proceeds of $1,175,000 (after payment of $25,839 in underwriting fees and other issuance costs) plus an additional $150,753 of 2011A Series debt service fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2011A Series bonds. As a result, the 2011A Series bonds are considered to be defeased, and the liability for those bonds has been removed from the Hospital's balance sheet.

Revenue Bonds Payable – Series 2018B

The Series 2018B Taxable Revenue Bonds (Morris County Hospital Project) payable consist of bonds in the original amount of $2,520,000 dated August 13, 2018, which bear interest at 4.12% to 4.42%. The bonds are payable in annual installments through September 1, 2038. The Hospital is required to make monthly deposits at a pro-rated amount of the next maturing principal and interest to the debt service fund held by the trustee. All of the bonds still outstanding may be redeemed at the Hospital's option on or after September 1, 2025, at 100%. The bonds are secured by the net revenues of the Hospital. Proceeds from the issuance of these bonds were used to reconstruct and remodel portions of the existing hospital facility.

The indenture agreements require that certain funds be established with the trustee. Accordingly, these funds are included as assets held by trustee in the balance sheets. The indenture agreements also require the Hospital to comply with restrictive covenants including maintaining a historical debt-service ratio of at least 1.25. The Hospital met the debt-service ratio for the years ending December 31, 2025 and 2024.

Debt Service Requirements

Debt service requirements on long-term debt other than financed capital purchases, as of December 31, 2025, are as follows:

Year Ending December 31,	Total to Be Paid	Principal	Interest
2026	$ 275,934	$ 165,000	$ 110,934
2027	270,984	165,000	105,984
2028	274,186	175,000	99,186
2029	271,976	180,000	91,976
2030	274,560	190,000	84,560
2031-2035	1,359,422	1,060,000	299,422
2036-2038	815,360	750,000	65,360
	$ 3,542,422	$ 2,685,000	$ 857,422

Lease Liabilities

The Hospital leases equipment, the terms of which expire in various years through 2028. Payments are based on the lease agreements in each specific lease.

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

Year Ending December 31,	Total to Be Paid	Principal	Interest
2026	$ 106,782	$ 101,321	$ 5,461
2027	56,423	53,408	3,015
2028	47,120	46,266	854
	$ 210,325	$ 200,995	$ 9,330

Subscription Liabilities

The Hospital has two subscription-based information technology arrangements (SBITAs), the terms of which expire in 2029 and 2031. The SBITA expiring in 2029 requires annual payments of approximately $30,900, and the SBITA expiring in 2031 requires monthly payments of approximately $33,500.

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

Year Ending December 31,	Total to Be Paid	Principal	Interest
2026	$ 432,287	$ 348,649	$ 83,638
2027	432,262	362,829	69,433
2028	432,237	377,585	54,652
2029	432,210	392,941	39,269
2030	402,000	378,023	23,977
2031	402,000	393,424	8,576
	$ 2,532,996	$ 2,253,451	$ 279,545

Note 7. 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 licensed as a CAH, and is paid for inpatient acute care, skilled swing-bed and outpatient services rendered to Medicare program beneficiaries at one hundred one percent (101%) of actual cost subject to certain limitations. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of an annual cost report by the Hospital and audit thereof by the Medicare administrative contractor.

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.

Approximately 63% and 64% of net patient service revenue 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, health maintenance organizations, 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 8. Charity Care

The costs of charity care provided under the Hospital's charity care policy were approximately $57,000 and $99,000 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.

Note 9. Pension Plans

Defined Contribution

The Board of Trustees elected to withdraw from the social security system and approved a defined contribution plan covering substantially all employees. Employees must have attained the age of 21 and has completed one year of service. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. 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. According to the terms of the plan, the Hospital will contribute 7.5% of the employees' compensation each plan year. The Plan allows for direct rollover and participant rollover contributions from eligible retirement plans. Contributions from the Hospital to the plan were $705,693 and $617,127 for the years ended December 31, 2025 and 2024, respectively.

Profit-Sharing Plan

The Board of Trustees elected to provide its employees with a profit-sharing retirement plan. The profit-sharing retirement plan contributions are discretionary contributions equal to a percentage of the employees' compensation, which will be determined by action of the Hospital's governing body each plan year. The Hospital did not make any contributions to the plan for the years ended December 31, 2025 and 2024.

Deferred Compensation Plan

The Board of Trustees elected to provide its employees with a deferred compensation plan, also known as a 457(b) plan. The purpose of the plan is to benefit those employees who choose to participate by permitting them to defer a portion of future compensation in order to provide payments at retirement. The Hospital provides the 457(b) plan to substantially all employees of the Hospital. The employees may contribute up to 100% of their salary to the 457(b) plan. The employees' salary deferral is limited by the Internal Revenue Service (IRS) annually. Employees are 100% vested in the contributions they choose to defer. If an employee is 50 years old or older and has met the annual IRS deferral limit, the employee may contribute a catch-up deferral that is also limited by the IRS annually. Contributions from employees to the 457(b) plan were $293,390 and $257,537 for the years ended December 31, 2025 and 2024, respectively. The Hospital does not contribute to the 457(b) plan.

Note 10. Disclosure About Fair Value of Assets

Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

Level 1 Quoted prices in active markets for identical assets

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets

Recurring Measurements

The following table presents the fair value measurements of assets recognized in the accompanying balance sheets measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2025 and 2024:

		Fair Value Measurements Using		
December 31, 2025	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Mutual funds - equity	$ 588,126	$ 588,126	$ -	$ -
Mutual funds - fixed income	149,435	149,435	-	-
	737,561	$ 737,561	$ -	$ -
Certificate of deposit	106,225			
Equity investment	(73,868)			
	$ 769,918			

		Fair Value Measurements Using		
December 31, 2024	**Fair Value**	**Quoted Prices in Active Markets for Identical Assets (Level 1)**	**Significant Other Observable Inputs (Level 2)**	**Significant Unobservable Inputs (Level 3)**
Mutual funds - equity	$ 491,792	$ 491,792	$ -	$ -
Mutual funds - fixed income	141,431	141,431	-	-
	633,223	$ 633,223	$ -	$ -
Certificate of deposit	103,787			
Equity investment	(75,341)			
	$ 661,669			

Following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying balance sheets, as well as the general classification of such assets pursuant to the valuation hierarchy.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include all the investments held by the Foundation and consist of equity securities and treasury securities.

Note 11. Condensed Combining Information

The following tables include condensed combining balance sheet information for the Hospital and its blended component unit as of December 31, 2025 and 2024:

	December 31, 2025			
	Hospital	Foundation	Eliminations	Total
Assets				
Current assets	$ 7,253,482	$ 968,811	$ -	$ 8,222,293
Capital assets, net	6,530,947	-	-	6,530,947
Lease assets, net	481,546	-	-	481,546
Subscription assets, net	2,109,406	-	-	2,109,406
Other assets	2,337,993	-	-	2,337,993
Total Assets	$ 18,713,374	$ 968,811	$ -	$ 19,682,185
Liabilities				
Current liabilities	$ 2,272,455	$ 5,218	$ -	$ 2,277,673
Noncurrent liabilities	4,509,803	-	-	4,509,803
Total Liabilities	6,782,258	5,218	-	6,787,476
Net Position				
Net investments in capital assets	3,997,126	-	-	3,997,126
Restricted expendable	-	355,129	-	355,129
Unrestricted	7,933,990	608,464	-	8,542,454
Total Net Position	11,931,116	963,593	-	12,894,709
Total Liabilities and Net Position	$ 18,713,374	$ 968,811	$ -	$ 19,682,185

	December 31, 2024			
	Hospital	Foundation	Eliminations	Total
Assets				
Current assets	$ 6,540,833	$ 801,931	$ -	$ 7,342,764
Capital assets, net	7,005,060	-	-	7,005,060
Lease assets, net	419,457	-	-	419,457
Subscription assets, net	2,316,266	-	-	2,316,266
Other assets	3,382,511	-	-	3,382,511
Total Assets	$ 19,664,127	$ 801,931	$ -	$ 20,466,058
Liabilities				
Current liabilities	$ 2,673,490	$ 4,984	$ -	$ 2,678,474
Noncurrent liabilities	4,859,583	-	-	4,859,583
Total Liabilities	7,533,073	4,984	-	7,538,057
Net Position				
Net investments in capital assets	4,179,888	-	-	4,179,888
Restricted expendable	-	300,644	-	300,644
Unrestricted	7,951,166	496,303	-	8,447,469
Total Net Position	12,131,054	796,947	-	12,928,001
Total Liabilities and Net Position	$ 19,664,127	$ 801,931	$ -	$ 20,466,058

The following tables include condensed combining statements of revenues, expenses, and changes in net position information for the Hospital and its blended component unit for the years ended December 31, 2025 and 2024:

	December 31, 2025			
	Hospital	Foundation	Eliminations	Total
Operating Revenues				
Net patient service revenue	$ 18,737,372	$ -	$ -	$ 18,737,372
Other	2,220,632	5,523	-	2,226,155
Total Operating Revenues	20,958,004	5,523	-	20,963,527
Operating Expenses				
Other operating expenses	20,674,592	15,917	-	20,690,509
Depreciation	720,529	-	-	720,529
Amortization	467,235	-	-	467,235
Total Operating Expenses	21,862,356	15,917	-	21,878,273
Operating Loss	(904,352)	(10,394)	-	(914,746)
Nonoperating Revenues (Expenses)				
Noncapital contributions	163,319	14,304	-	177,623
Noncapital appropriations - Morris County	606,418	-	-	606,418
Council Grove Assisted Living, LLC gains	-	1,473	-	1,473
Investment income	147,388	106,778	-	254,166
Interest expense	(212,711)	-	-	(212,711)
Total Nonoperating Revenues (Expenses)	704,414	122,555	-	826,969
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Gifts	(199,938)	112,161	-	(87,777)
Capital Grants and Gifts	-	54,485	-	54,485
Increase (Decrease) in Net Position	(199,938)	166,646	-	(33,292)
Net Position, Beginning of Year	12,131,054	796,947	-	12,928,001
Net Position, End of Year	$ 11,931,116	$ 963,593	$ -	$ 12,894,709

	December 31, 2024			
	Hospital	Foundation	Eliminations	Total
Operating Revenues				
Net patient service revenue	$ 17,074,633	$ -	$ -	$ 17,074,633
Other	1,513,440	5,357	-	1,518,797
Total Operating Revenues	18,588,073	5,357	-	18,593,430
Operating Expenses				
Other operating expenses	18,184,324	310,062	-	18,494,386
Depreciation	717,986	-	-	717,986
Amortization	455,368	-	-	455,368
Total Operating Expenses	19,357,678	310,062	-	19,667,740
Operating Loss	(769,605)	(304,705)	-	(1,074,310)
Nonoperating Revenues (Expenses)				
Noncapital contributions	806,284	16,304	-	822,588
Noncapital appropriations - Morris County	561,224	-	-	561,224
Council Grove Assisted Living, LLC losses	-	(24,402)	-	(24,402)
Investment income	144,154	91,750	-	235,904
Interest expense	(229,416)	-	-	(229,416)
Total Nonoperating Revenues (Expenses)	1,282,246	83,652	-	1,365,898
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Gifts	512,641	(221,053)	-	291,588
Capital Grants and Gifts	-	124,444	-	124,444
Increase (Decrease) in Net Position	512,641	(96,609)	-	416,032
Net Position, Beginning of Year	11,618,413	893,556	-	12,511,969
Net Position, End of Year	$ 12,131,054	$ 796,947	$ -	$ 12,928,001

The following tables include condensed combining statements of cash flows information for the Hospital and its blended component unit for the years ended December 31, 2025 and 2024:

	December 31, 2025			
	Hospital	Foundation	Eliminations	Total
Net Cash Used In Operating Activities	$ (518,954)	$ (10,160)	$ -	$ (529,114)
Net Cash Provided By Noncapital Financing Activities	769,737	14,304	-	784,041
Net Cash Provided By (Used In) Capital and Related Financing Activities	(1,378,623)	54,485	-	(1,324,138)
Net Cash Provided By Investing Activities	1,191,906	2	-	1,191,908
Increase in Cash and Cash Equivalents	64,066	58,631	-	122,697
Cash and Cash Equivalents, Beginning of Year	677,795	136,736	-	814,531
Cash and Cash Equivalents, End of Year	$ 741,861	$ 195,367	$ -	$ 937,228

	December 31, 2024			
	Hospital	Foundation	Eliminations	Total
Net Cash Used In Operating Activities	$ (350,137)	$ (304,661)	$ -	$ (654,798)
Net Cash Provided By Noncapital Financing Activities	1,367,508	16,304	-	1,383,812
Net Cash Provided By (Used In) Capital and Related Financing Activities	(1,509,682)	124,444	-	(1,385,238)
Net Cash Provided By Investing Activities	39,692	28,792	-	68,484
Decrease in Cash and Cash Equivalents	(452,619)	(135,121)	-	(587,740)
Cash and Cash Equivalents, Beginning of Year	1,130,414	271,857	-	1,402,271
Cash and Cash Equivalents, End of Year	$ 677,795	$ 136,736	$ -	$ 814,531