

MARION COUNTY HOSPITAL DISTRICT #1
OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Financial Statements

Years Ended September 30, 2019 and 2018

(Together With Independent Auditor's Report)

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

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Years Ended September 30, 2019 and 2018

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
St. Luke Hospital and Living Center
Marion, Kansas:

Report on the Financial Statements

We have audited the accompanying financial statements of Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center (the Hospital) and its discretely presented component unit, as of and for the years ended September 30, 2019 and 2018, and the related notes to the financial statements which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the accounting principles generally accepted in the United States of America; this includes 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.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center as of September 30, 2019 and 2018 and the changes in its net position and its cash flows for the years then ended, and the financial position of its discretely presented component unit as of September 30, 2019 and 2018 and changes in its net assets for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such 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. 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 inquires 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 audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary data included in Schedules 1 and 2 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Dohman, Akerlund & Eddy, LLC

Aurora, Nebraska
January 28, 2020

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Management's Discussion and Analysis

September 30, 2019 and 2018

Introduction

This management's discussion and analysis of the financial performance of St. Luke Hospital and Living Center (the Hospital) provides an overview of the Hospital's financial activities for the years ended September 30, 2019 and 2018. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents and other interest-bearing deposits increased by \$1,146,998 or 17% and increased by \$932,274 or 16% in 2019 and 2018, respectively.
- The Hospital's net position increased by \$1,323,618 or 17% and \$996,613 or 14% in 2019 and 2018, respectively.
- The Hospital recorded operating income of \$271,899 and \$272,049 in 2019 and 2018, respectively. This was a decrease of \$150 in operating results as compared to fiscal year 2018. The fiscal year 2018 operating income was an increase of \$678,650 over the fiscal year 2017 operating loss reported.

Using This Annual Report

The Hospital's financial statements consist of three statements - a statement of financial position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by creditors, contributors, grantors, or enabling legislation. The Hospital is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Statement of Financial Position and Statement of Revenues, Expenses and Changes in Net Position

One of the most important questions asked about any Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The statement of financial position and the statement of revenues, expenses and changes in net position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

(Continued)

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Management's Discussion and Analysis

September 30, 2019 and 2018

These two statements report the Hospital's net position changes in them. The Hospital's total net position - the difference between its assets and liabilities - is one measure of the Hospital's financial health or financial position. Over time, increases or decreases in the Hospital's net position is an indicator of whether its financial health is improving or deteriorating. Other non-financial factors, such as changes in the Hospital's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the Hospital.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from four defined types of 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 during the reporting period.

The Hospital's Net Position

The Hospital's net position is the difference between assets and liabilities reported in the statement of financial position. The Hospital's net position increased by \$1,323,618 or 17% in 2019 over 2018, and increased by \$996,613 or 14% in 2018 over 2017, as shown in Table 1.

(Continued)

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Management's Discussion and Analysis

September 30, 2019 and 2018

Table 1: Assets, Liabilities and Net Position

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets			
Cash and cash equivalents	\$ 6,552,388	5,420,645	4,503,745
Other interest-bearing deposits	1,255,917	1,240,662	1,225,288
Restricted cash - held under bond indenture	708,730	683,162	684,755
Patient accounts receivable, net	1,530,552	1,370,387	1,121,909
Estimated amounts due from third-party payers	-	-	16,000
Other current assets	550,134	480,590	367,322
Receivable from the Foundation	-	26,303	100,000
Capital assets, net	5,722,418	5,615,371	5,592,636
Other assets	<u>23,520</u>	<u>26,520</u>	<u>29,521</u>
Total assets	<u>\$ 16,343,659</u>	<u>14,863,640</u>	<u>13,641,176</u>
Liabilities			
Long-term debt, including current portion	\$ 5,349,535	5,547,753	5,694,242
Accounts payable	290,989	306,912	232,083
Accrued expenses - salaries, wages and benefits	724,481	661,936	594,950
Accrued interest payable	139,692	142,375	144,850
Estimated amounts due to third-party payers	<u>543,680</u>	<u>233,000</u>	<u>-</u>
Total liabilities	<u>\$ 7,048,377</u>	<u>6,891,976</u>	<u>6,666,125</u>
Net Position			
Net investment in capital assets	\$ 372,883	67,618	(101,606)
Restricted expendable for debt service	708,730	683,162	684,755
Restricted for capital assets	-	26,303	100,000
Unrestricted	<u>8,213,669</u>	<u>7,194,581</u>	<u>6,291,902</u>
Total net position	<u>\$ 9,295,282</u>	<u>7,971,664</u>	<u>6,975,051</u>
Total liabilities and net position	<u>\$ 16,343,659</u>	<u>14,863,640</u>	<u>13,641,176</u>

Significant changes in the Hospital's assets in 2019 include an increase in cash and patient accounts receivable, net. Part of the increase in cash at year-end is related to being overpaid by Medicare during the year.

Operating Results and Changes in the Hospital's Net Position

In 2019, the Hospital's net position increased by \$1,323,618 or 17%, as shown in Table 2. This increase is made up of several different components. The Hospital's net position increased by \$996,613 or 14% in 2018.

(Continued)

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Management's Discussion and Analysis

September 30, 2019 and 2018

Table 2: Operating Results and Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating Revenues			
Net patient service revenue	\$ 11,770,747	10,841,427	10,066,993
Other operating revenues	<u>900,015</u>	<u>874,668</u>	<u>793,933</u>
Total operating revenues	<u>12,670,762</u>	<u>11,716,095</u>	<u>10,860,926</u>
Operating Expenses			
Salaries and wages and employee benefits	5,369,106	4,967,951	5,015,221
Employee benefits	1,179,094	971,039	1,005,524
Supplies and other operating expenses	5,242,933	4,875,179	4,653,840
Depreciation	<u>607,730</u>	<u>629,877</u>	<u>592,942</u>
Total operating expenses	<u>12,398,863</u>	<u>11,444,046</u>	<u>11,267,527</u>
Operating income (loss)	<u>271,899</u>	<u>272,049</u>	<u>(406,601)</u>
Nonoperating Revenues (Expenses)			
Property taxes	848,371	828,710	809,674
Investment income	181,527	110,765	44,927
Build America Bonds subsidy	109,455	111,549	113,418
Interest expense	(430,281)	(439,218)	(438,218)
Noncapital grants and gifts	41,362	49,095	38,767
Gain on disposition of capital assets	<u>-</u>	<u>-</u>	<u>5,359</u>
Total nonoperating revenues	<u>750,434</u>	<u>660,901</u>	<u>573,927</u>
Excess of revenues over expenses	1,022,333	932,950	167,326
Capital Grants and Contributions	<u>301,285</u>	<u>63,663</u>	<u>112,940</u>
Increase in Net Position	<u>\$ 1,323,618</u>	<u>996,613</u>	<u>280,266</u>

Operating Income (Loss)

The first component of the overall change in the Hospital's net position is its operating income or loss - generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In two of the most recent three years, the Hospital has reported an operating income. The Hospital levies property taxes to provide sufficient resources to enable the facility to serve lower income and other residents.

(Continued)

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Management's Discussion and Analysis

September 30, 2019 and 2018

The operating income for 2019 was relatively flat over the operating income of 2018. The primary components of this were as follows:

- An increase in overall gross revenue of over \$2.5 million or 14%, with the majority of the growth in outpatient service revenue.
- Outpatient revenues, including the physician clinic, grew by nearly \$2.3 million or 15%, with most of the increase in wound care, surgery, pharmacy, and lab departments.
- An increase of 24% in contractual adjustments was experienced in connection with the rise in gross charges.
- An increase in salary expense of \$401,155 or 8% due to FTEs increasing by 2% and average wage increases of 3%.
- An increase of \$208,055 or 21% in employee benefit costs. The primary component of this change was an increase in employee health insurance expense.
- An increase of \$367,754 or 8% in supplies and other operating costs due to the increase in patient revenues.

The operating income for 2018 increased by \$678,650 as compared to 2017. The primary components of this change were as follows:

- An increase in overall gross revenue of over \$1.5 million or 10%, with all the growth in outpatient service revenue.
- Outpatient revenues, including the physician clinic, grew by nearly \$2.0 million or 15%, with most of the increase in wound care, surgery, and therapy departments.
- An increase of 14% in contractual adjustments.
- A decrease in salary expense of \$47,270 or .9% due to FTEs dropping by 4%.
- A decrease of \$34,485 in employee benefit costs. The primary component of this change was a decrease in employee health insurance expense.
- An increase of \$221,339 or 5% in supplies and other operating costs due to the increase in patient revenues.

Nonoperating Revenues and Grants/Contributions

Nonoperating revenues consist principally of property taxes, grants and gifts. Property tax revenue remained relatively stable. The Hospital receives grants and gifts from various state and federal agencies and individuals. Grants and gifts, both noncapital and capital, received in 2019 totaled \$342,647 as compared to \$112,758 in 2018 and \$151,707 in 2017.

(Continued)

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Management's Discussion and Analysis

September 30, 2019 and 2018

The Hospital's Cash Flows

Changes in the Hospital's cash flows are consistent with changes in operating income/losses and nonoperating revenues, discussed earlier, with no exceptions.

Capital Asset and Debt Administration

Capital Assets

At the end of 2019, the Hospital had \$5,722,418 invested in capital assets, net of accumulated depreciation, as detailed in note 5 to the financial statements. The Hospital had capital asset additions totaling \$779,932 in 2019 mostly related to building and other improvements being made to the Living Center as part of an on-going building improvement project. The Hospital incurred capital asset additions of \$652,612 in 2018.

Debt

At September 30, 2019, the Hospital had \$5,349,535 in bond and capital lease obligations outstanding, as detailed in note 8 to the financial statements. The Hospital issued bonds in May 2010 to fund the building project that was started in August 2010 and completed in December 2011.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Hospital Business Administration by telephoning 620-382-2177.

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Statements of Financial Position

September 30, 2019 and 2018

<u>Assets</u>	<u>2019</u>	<u>2018</u>
Current assets:		
Cash and cash equivalents	\$ 6,552,388	5,420,645
Other interest bearing deposits	1,255,917	1,240,662
Restricted cash - held under bond indenture	243,357	241,054
Patient and resident accounts receivable, net of contractual adjustments and estimated uncollectibles of \$1,332,800 in 2019 and \$1,225,300 in 2018	1,530,552	1,370,387
Other receivables	270,248	229,341
Supplies	199,355	182,833
Prepaid expenses	80,531	68,416
Total current assets	<u>10,132,348</u>	<u>8,753,338</u>
Assets whose use is limited or restricted:		
Held under bond indenture for debt service	465,373	442,108
Receivable from St. Luke Hospital Foundation	-	26,303
Total assets whose use is limited or restricted	<u>465,373</u>	<u>468,411</u>
Other receivables	<u>23,520</u>	<u>26,520</u>
Capital assets	14,400,967	13,694,736
Less accumulated depreciation	<u>8,678,549</u>	<u>8,079,365</u>
Net capital assets	<u>5,722,418</u>	<u>5,615,371</u>
	<u>\$ 16,343,659</u>	<u>14,863,640</u>

See accompanying notes to financial statements.

<u>Liabilities and Net Position</u>	<u>2019</u>	<u>2018</u>
Current liabilities:		
Current maturities of long-term debt	\$ 167,569	201,093
Accounts payable	290,989	306,912
Accrued expenses - salaries, wages and benefits	724,481	661,936
Accrued interest payable	139,692	142,375
Estimated third-party payor settlements	<u>543,680</u>	<u>233,000</u>
Total current liabilities	1,866,411	1,545,316
Long-term debt, excluding current maturities	<u>5,181,966</u>	<u>5,346,660</u>
Total liabilities	<u>7,048,377</u>	<u>6,891,976</u>
Net position:		
Net investment in capital assets	372,883	67,618
Restricted -		
Expendable for debt service	708,730	683,162
Expendable for capital assets	-	26,303
Unrestricted	<u>8,213,669</u>	<u>7,194,581</u>
Total net position	9,295,282	7,971,664
	<u>\$ 16,343,659</u>	<u>14,863,640</u>

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Statements of Revenues, Expenses and Changes in Net Position

Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Operating revenues:		
Net patient and resident service revenue	\$ 12,210,974	11,271,149
Provision for bad debts	<u>(440,227)</u>	<u>(429,722)</u>
Net patient and resident service revenue, less provision for bad debts	11,770,747	10,841,427
Other revenue	<u>900,015</u>	<u>874,668</u>
Total operating revenues	<u>12,670,762</u>	<u>11,716,095</u>
Operating expenses:		
Salaries and wages	5,369,106	4,967,951
Employee benefits	1,179,094	971,039
Supplies and other	5,242,933	4,875,179
Depreciation	<u>607,730</u>	<u>629,877</u>
Total operating expenses	<u>12,398,863</u>	<u>11,444,046</u>
Operating income	<u>271,899</u>	<u>272,049</u>
Nonoperating revenues (expenses):		
Property taxes	848,371	828,710
Investment income	181,527	110,765
Build America Bonds subsidy	109,455	111,549
Interest expense	(430,281)	(439,218)
Noncapital grants and contributions	<u>41,362</u>	<u>49,095</u>
Total nonoperating revenues and expenses	<u>750,434</u>	<u>660,901</u>
Excess of revenues over expenses	1,022,333	932,950
Capital grants and contributions	<u>301,285</u>	<u>63,663</u>
Increase in net position	1,323,618	996,613
Net position, beginning of year	<u>7,971,664</u>	<u>6,975,051</u>
Net position, end of year	<u>\$ 9,295,282</u>	<u>7,971,664</u>

See accompanying notes to financial statements.

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Statements of Cash Flows

Years Ended September 30, 2019 and 2018

<u>Increase in Cash and Cash Equivalents</u>	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Cash received:		
Patients, residents, and third-party payors	\$ 11,921,262	10,841,949
Other revenue	862,236	776,340
Cash paid to and on behalf of employees	(6,485,655)	(5,872,004)
Cash paid to suppliers	<u>(5,289,306)</u>	<u>(4,811,831)</u>
Net cash provided by operating activities	<u>1,008,537</u>	<u>934,454</u>
Cash flows from noncapital financing activities:		
Property taxes received	849,354	828,112
Noncapital grants and contributions received	<u>41,362</u>	<u>49,095</u>
Net cash provided by noncapital financing activities	<u>890,716</u>	<u>877,207</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(714,777)	(586,312)
Capital grants and gifts received	327,588	137,360
Principal payments on long-term debt	(198,218)	(217,649)
Build America Bonds subsidy	110,178	112,236
Interest paid on long-term debt	<u>(432,964)</u>	<u>(441,693)</u>
Net cash used by capital and related financing activities	<u>(908,193)</u>	<u>(996,058)</u>
Cash flows from investing activities:		
Interest income received	181,506	115,078
Investment in other interest bearing deposits	(15,255)	(15,374)
Net change in construction escrow and debt-related accounts	<u>(23,265)</u>	<u>5,002</u>
Net cash provided by investing activities	<u>142,986</u>	<u>104,706</u>
Net increase in cash and cash equivalents	1,134,046	920,309
Cash and cash equivalents, beginning of year	<u>5,661,699</u>	<u>4,741,390</u>
Cash and cash equivalents, end of year	<u>\$ 6,795,745</u>	<u>5,661,699</u>
Reconciliation of cash and cash equivalents to the statements of financial position:		
Cash and cash equivalents	\$ 6,552,388	5,420,645
Restricted cash - held under bond indenture	<u>243,357</u>	<u>241,054</u>
	<u>\$ 6,795,745</u>	<u>5,661,699</u>

(Continued)

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Statements of Cash Flows
(Continued)
Years Ended September 30, 2019 and 2018

<u>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</u>	<u>2019</u>	<u>2018</u>
Operating income	\$ 271,899	272,049
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	607,730	629,877
Provision for bad debts	440,227	429,722
Decrease (increase) in:		
Patient and resident accounts receivable	(600,392)	(678,200)
Other receivables	(39,592)	(113,298)
Inventories	(16,522)	(29,877)
Prepaid expenses	(12,115)	28,506
Estimated third-party payor settlements	-	16,000
Increase (decrease) in:		
Accounts payable	(15,923)	79,689
Accrued expenses - salaries, wages and benefits	62,545	66,986
Estimated third-party payor settlements	310,680	233,000
Net cash provided by operating activities	<u>\$ 1,008,537</u>	<u>934,454</u>

Supplemental Disclosures of Cash Flows Information

Capital asset additions acquired with capital lease obligations	\$ <u> -</u>	<u>71,160</u>
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See accompanying notes to financial statements.

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Statements of Financial Position
of St. Luke Hospital Foundation (A Component Unit)

September 30, 2019 and 2018

<u>Assets</u>	<u>2019</u>	<u>2018</u>
Cash	\$ 887,073	1,040,010
Certificates of deposit	62,265	122,060
Contributions receivable, net of allowance of \$13,100 in 2019 and \$12,900 in 2018	68,545	107,892
Property plant and equipment, net of accumulated depreciation of \$10,987 in 2019 and \$8,757 in 2018	<u>75,962</u>	<u>78,192</u>
Total assets	<u>\$ 1,093,845</u>	<u>1,348,154</u>
 <u>Liabilities and Net Assets</u> 		
Accounts payable	11,165	4,558
Contributions payable to St. Luke Hospital and Living Center	<u>7,558</u>	<u>26,303</u>
Total liabilities	18,723	30,861
Net assets:		
Net assets without donor restrictions	705,280	581,591
Net assets with donor restrictions	<u>369,842</u>	<u>735,702</u>
Total net assets	<u>1,075,122</u>	<u>1,317,293</u>
	<u>\$ 1,093,845</u>	<u>1,348,154</u>

See accompanying notes to financial statements.

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Statements of Revenues, Expenses and Changes in Net Position
of St. Luke Hospital Foundation (A Component Unit)

Years Ended September 30, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Unrestricted revenues, gains and other support:		
Contributions	\$ 22,306	23,681
Thrift Shoppe income	114,858	120,770
Interest income	6,955	4,378
Net assets released from restriction for the Hospital building project	<u>368,715</u>	<u>-</u>
Total revenues, gains and other support	<u>512,834</u>	<u>148,829</u>
Unrestricted expenses:		
Support to St. Luke Hospital and Living Center	312,861	76,929
Administration	35,225	41,199
Fundraising	6,239	27,043
Thrift Shoppe expenses	34,820	31,199
Scholarships provided	<u>-</u>	<u>1,250</u>
Total expenses	<u>389,145</u>	<u>177,620</u>
Increase (decrease) in net assets without donor restrictions	<u>123,689</u>	<u>(28,791)</u>
Net assets with donor restrictions:		
Grants and contributions	2,928	116,082
Provision for uncollectible pledges	(73)	(3,504)
Net assets released from restriction for the Hospital building project	<u>(368,715)</u>	<u>-</u>
Increase (decrease) in net assets with donor restrictions	<u>(365,860)</u>	<u>112,578</u>
Increase (decrease) in net assets	(242,171)	83,787
Net assets, beginning of year	<u>1,317,293</u>	<u>1,233,506</u>
Net assets, end of year	<u>\$ 1,075,122</u>	<u>1,317,293</u>

See accompanying notes to financial statements.

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Notes to Financial Statements

September 30, 2019 and 2018

(1) Nature of Operations and Summary of Significant Accounting Policies

Nature of operations and reporting entity

Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center (Hospital) owns and operates an acute care hospital located in Marion, Kansas. The Hospital is operated by a Board of Directors elected by the qualified voters of the District. The Hospital primarily earns revenues by providing inpatient, outpatient, emergency, and residential long-term care services in the Marion County area. It also operates a home health agency 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. Operating revenues and expenses include exchange transactions. Property taxes, interest income and interest expense 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 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.

Cash equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2019 and 2018, cash equivalents consisted primarily of money market accounts.

Property taxes

The Hospital received approximately 6.1% and 6.5% of its financial support from property taxes for the years ended September 30, 2019 and 2018, respectively. One hundred percent of these funds were used to support operations in both years.

Property taxes are levied in November of one year and are received beginning in January of the following year. Property tax revenue is recognized in full in the year following the year the taxes were levied, which is the year in which use is first permitted.

(Continued)

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Notes to Financial Statements

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. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from medical malpractice and employee health claims. Annual estimated provisions are accrued for the self-insured portion of medical malpractice and employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and investment income

Investments in U.S. Treasury, agency and instrumentality obligations are carried at fair value. Fair value is determined using quoted market prices. Investment income includes interest income.

Patient and resident accounts receivable

The Hospital reports patient and resident accounts receivable for services rendered at net realizable amounts from third-party payers, patients and residents, 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 market.

(Continued)

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Notes to Financial Statements

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. Major renewals and improvements that exceed \$5,000 are capitalized, while replacements, maintenance, and repairs, which do not improve or extend the useful life of the respective assets are charged to expense as incurred. All capital assets other than land are depreciated or amortized over the estimated useful lives of the respective assets on the straight-line method. Assets under capital lease obligations are depreciated over the shorter of the lease term or their respective estimated useful lives. Useful lives are determined using the general guidelines set forth in the American Hospital Association Guide for Estimated Useful lives of Depreciable Hospital Assets. When items are disposed of, the cost and accumulated depreciation are eliminated from the accounts and any gain or loss is recognized. The following estimated useful lives are being used by the Hospital:

	<u>Life in Years</u>
Land improvements	10
Buildings and improvements	10-50
Fixed equipment	3-20
Moveable equipment	<u>3-20</u>

Compensated absences

Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off. 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 three 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 purchase or construction of those assets. Restricted expendable net position is made up of amounts deposited with trustees as required by bond indentures and a donation receivable from the St. Luke Hospital Foundation for capital assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

(Continued)

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Notes to Financial Statements

Net patient and resident 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 and resident service revenue is reported at the estimated net realizable amounts from patients, residents, 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 and resident service revenue. The Hospital estimates the cost associated with providing services under its charity care policy was \$59,025 and \$19,757 for the years ended September 30, 2019 and 2018, respectively. The Hospital computes its estimated charity care costs by applying its overall cost to charge ratio (total operating costs divided by gross patient and resident service revenue) to the gross charges forgone under its charity care policy.

Income taxes

As an essential government entity, 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.

Foundation

St. Luke Hospital Foundation (the Foundation) is a legally separate, tax-exempt component unit of the Hospital. The Foundation's primary function is to raise and hold funds to support the Hospital and its programs. The Board of the Foundation is self-perpetuating.

Although the Hospital does not control the timing or amount of receipts from the Foundation, the Foundation's by-laws restrict its resources and related income to be used for the benefit of the Hospital. Because these 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 discretely presented in the Hospital's financial statements.

During the fiscal years ended September 30, 2019 and 2018, the Foundation provided \$312,861 and \$76,929, respectively, of support to the Hospital.

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MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Notes to Financial Statements

The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC). As such, certain revenue recognition criteria and presentation features are different from GASB revenue recognition criteria and presentation features. No modifications have been made to the Foundation's statements in the Hospital's financial reporting entity for these differences.

(2) Net Patient and Resident Service Revenue

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

- **Medicare:** The Hospital is designated as a Critical Access Hospital (CAH). As a CAH, inpatient acute, inpatient nonacute (swing-bed), and outpatient services provided to Medicare beneficiaries are paid based on a cost reimbursement methodology (plus an additional 1% of cost). The Hospital is reimbursed for these services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor. Although the majority of the services provided are reimbursed under the previously described methodology, there are services, such as certain laboratory and diagnostic services, reimbursed under a prospectively determined fee schedule. Additionally, home health services are paid on a per-episode basis using clinical, diagnostic and other factors. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited by the MAC through September 30, 2017.

Beginning April 1, 2013, a mandatory payment reduction, known as sequestration, of 2% went into effect. Under current legislation, sequestration is scheduled to last until 2027.

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

Services rendered for long-term care facility residents are reimbursed under a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Beginning July 1, 2018, rates were computed each calendar quarter using an average of the 2015, 2016 and 2017 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.

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MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Notes to Financial Statements

Approximately 56% and 59% of net patient and resident service revenues for the years ended September 30, 2019 and 2018, respectively, are from combined participation in the Medicare and Medicaid programs. Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount 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.

For uninsured patients and residents that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the Hospital's uninsured patients and residents will be unable or unwilling to pay for the services provided. The Hospital records a significant provision for bad debts related to uninsured patients and residents in the period the services are provided. Additionally, Medicare, Medicaid, and commercial insurance and other gross revenue classifications include the patient and resident responsibility amounts associated with deductibles and/or copayments. The uncollectible portions of the patient and resident responsibility amounts are included in the provision for bad debts.

(Continued)

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Notes to Financial Statements

The following schedule provides patient and resident service revenue recognized in the period by major payor source:

	<u>2019</u>	<u>2018</u>
Net patient and resident service revenue:		
Gross patient and resident service revenue:		
Medicare	\$ 10,725,099	9,486,288
Medicaid	1,803,213	1,508,630
Commercial insurance and other	6,056,284	5,176,857
Uninsured/self-pay	1,488,974	1,395,125
Charity care deductions	<u>(99,845)</u>	<u>(31,838)</u>
Gross patient and resident service revenue (after charity care)	<u>19,973,725</u>	<u>17,535,062</u>
Contractual adjustments:		
Medicare	5,174,958	3,872,508
Medicaid	470,467	435,103
Commercial insurance and other	<u>2,117,326</u>	<u>1,956,302</u>
Total contractual adjustments	<u>7,762,751</u>	<u>6,263,913</u>
Net patient and resident service revenue	12,210,974	11,271,149
Provision for bad debts	<u>(440,227)</u>	<u>(429,722)</u>
Net patient and resident service revenue, less provision for bad debts	<u>\$ 11,770,747</u>	<u>10,841,427</u>

(3) Deposits, Investments, and Investment Income

Deposits

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

(Continued)

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Notes to Financial Statements

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 September 30, 2019 and 2018, \$7,415,808 and \$6,307,851, respectively, of the Hospital's bank balances of \$8,165,808 and \$7,057,851, respectively, were exposed to custodial credit risk as follows:

	<u>2019</u>	<u>2018</u>
In excess of federal depository insurance but collateralized by financial institution's trust department or agent in the Hospital's name	\$ <u>7,415,808</u>	<u>6,307,851</u>

Investments

The Hospital may legally invest in direct obligations of and other obligations guaranteed as to 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.

At September 30, 2019 and 2018, the Hospital had the following investments and maturities:

		<u>2019</u>			
		<u>Maturities in Years</u>			
<u>Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
U.S. agencies obligations	\$ <u>465,373</u>	<u>-</u>	<u>465,373</u>	<u>-</u>	<u>-</u>
		<u>2018</u>			
		<u>Maturities in Years</u>			
<u>Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
U.S. agencies obligations	\$ <u>442,108</u>	<u>442,108</u>	<u>-</u>	<u>-</u>	<u>-</u>

The Hospital is required to hold a set amount of funds with Arbitrage Management Group (AMG) (acting as the bond trustee) for a debt reserve fund as required by the 2010 bond covenants. AMG invests the funds in U.S. agencies obligations. A very limited amount of interest is earned on the funds annually.

(Continued)

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Notes to Financial Statements

Interest Rate Risk - As a means of limiting its exposure to fair value losses arising from rising interest rates, the Hospital's investment policy does not limit the percentage of investment in various term investments.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Hospital's policy to limit its investments in corporate bonds to investment grade ratings issued by nationally recognized statistical rating organizations (NRSROs). At September 30, 2019 and 2018, the Hospital had no investments in corporate bonds. All investments were in U.S. agencies obligations.

Custodial Credit Risk - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Hospital's investment policy does not address how securities underlying repurchase agreements are to be held.

Concentration of Credit Risk - The Hospital places no limit on the amount that may be invested in any one issuer. At September 30, 2019 and 2018, the Hospital had no investment in individual corporate bonds; all investments were in U.S. agencies obligations.

Summary of carrying values

The carrying values of deposits and investments shown above are included in the statements of financial position as follows:

	<u>2019</u>	<u>2018</u>
Carrying value:		
Deposits	\$ 8,051,362	6,902,061
Petty cash	300	300
Investments	<u>465,373</u>	<u>442,108</u>
	<u>\$ 8,517,035</u>	<u>7,344,469</u>

Included in the following statements of financial position captions:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 6,552,388	5,420,645
Other interest bearing deposits	1,255,917	1,240,662
Restricted cash - held under bond indenture	243,357	241,054
Held under bond indenture for debt service	<u>465,373</u>	<u>442,108</u>
	<u>\$ 8,517,035</u>	<u>7,344,469</u>

(Continued)

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Notes to Financial Statements

Investment income

All investment income for the years ended September 30, 2019 and 2018 consisted of interest income.

(4) Patient and Resident Accounts Receivable and Concentration of Credit Risk

The Hospital grants credit without collateral to its patients and residents, many of whom are insured under Medicare and Medicaid third-party payor agreements.

Patient and resident accounts receivable reported as current assets at September 30, 2019 and 2018 consisted of the following:

	<u>2019</u>	<u>2018</u>
Receivable from:		
Patients and residents	\$ 260,526	663,644
Patients and residents' insurance carriers	1,251,081	650,407
Medicare	1,076,636	1,100,162
Medicaid	<u>275,109</u>	<u>181,474</u>
Total patient and resident accounts receivable	<u>2,863,352</u>	<u>2,595,687</u>
Allowances for:		
Contractual adjustments	802,900	769,100
Uncollectible accounts	<u>529,900</u>	<u>456,200</u>
Total allowances	<u>1,332,800</u>	<u>1,225,300</u>
Net patient and resident accounts receivable	\$ <u>1,530,552</u>	<u>1,370,387</u>

(Continued)

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Notes to Financial Statements

(5) Capital Assets

Capital asset additions, transfers/retirements, and balances for the years ended September 30, 2019 and 2018 were as follows:

	<u>2018</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>2019</u>
<u>Historical costs</u>				
Land (not being depreciated)	\$ 28,253	-	-	28,253
Land improvements	80,527	-	-	80,527
Buildings and improvements	9,325,413	636,986	-	9,962,399
Fixed equipment	613,681	88,297	-	701,978
Major moveable equipment	3,581,707	54,649	(8,546)	3,627,810
Construction in progress (not being depreciated)	<u>65,155</u>	<u>-</u>	<u>(65,155)</u>	<u>-</u>
Total historical costs	<u>13,694,736</u>	<u>779,932</u>	<u>(73,701)</u>	<u>14,400,967</u>
<u>Less accumulated depreciation</u>				
Land improvements	(56,014)	(3,475)	-	(59,489)
Buildings and improvements	(4,310,492)	(446,810)	-	(4,757,302)
Fixed equipment	(531,124)	(22,881)	-	(554,005)
Major moveable equipment	<u>(3,181,735)</u>	<u>(134,564)</u>	<u>8,546</u>	<u>(3,307,753)</u>
Total accumulated depreciation	<u>(8,079,365)</u>	<u>(607,730)</u>	<u>8,546</u>	<u>(8,678,549)</u>
Net capital assets	\$ <u>5,615,371</u>	<u>172,202</u>	<u>(65,155)</u>	<u>5,722,418</u>

(Continued)

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Notes to Financial Statements

	<u>2017</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>2018</u>
<u>Historical costs</u>				
Land (not being depreciated)	\$ 28,253	-	-	28,253
Land improvements	60,601	19,926	-	80,527
Buildings and improvements	8,880,316	2,510	442,587	9,325,413
Fixed equipment	613,681	-	-	613,681
Major moveable equipment	3,540,885	137,434	(96,612)	3,581,707
Construction in progress (not being depreciated)	<u>15,000</u>	<u>492,742</u>	<u>(442,587)</u>	<u>65,155</u>
Total historical costs	<u>13,138,736</u>	<u>652,612</u>	<u>(96,612)</u>	<u>13,694,736</u>
<u>Less accumulated depreciation</u>				
Land improvements	(52,597)	(3,417)	-	(56,014)
Buildings and improvements	(3,888,992)	(421,500)	-	(4,310,492)
Fixed equipment	(515,705)	(15,419)	-	(531,124)
Major moveable equipment	<u>(3,088,806)</u>	<u>(189,541)</u>	<u>96,612</u>	<u>(3,181,735)</u>
Total accumulated depreciation	<u>(7,546,100)</u>	<u>(629,877)</u>	<u>96,612</u>	<u>(8,079,365)</u>
Net capital assets	\$ <u>5,592,636</u>	<u>22,735</u>	<u>-</u>	<u>5,615,371</u>

(6) Employee Health Claims

Beginning October 1, 2015, substantially all of the Hospital's employees and their dependents are eligible to participate in the Hospital's employee health insurance plan. The Hospital is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$30,000 per covered employee. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term.

(Continued)

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Notes to Financial Statements

Activity in the Hospital's accrued employee health claims liability during 2019 is summarized as follows:

Balance, beginning of year	\$ 76,176
Current year claims incurred and changes in estimates for claims incurred in prior years	695,944
Claims and expenses paid	<u>(704,027)</u>
	\$ <u>68,093</u>

(7) Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. 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 \$800,000 of coverage for each medical incident and \$2,400,000 of aggregate coverage for each policy year.

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.

(Continued)

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Notes to Financial Statements

(8) Long-term Debt

A schedule of changes in the Hospital's long-term debt obligations for the years ended September 30, 2019 and 2018 is as follows:

	<u>2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>2019</u>	<u>Current Portion</u>
Long-term debt					
2010 revenue bonds:					
Series A	\$ 3,925,000	-	(115,000)	3,810,000	120,000
Series B	1,400,000	-	-	1,400,000	-
Capital lease obligations	<u>222,753</u>	<u>-</u>	<u>(83,218)</u>	<u>139,535</u>	<u>47,569</u>
Total long-term debt	5,547,753	<u>-</u>	<u>(198,218)</u>	5,349,535	<u>167,569</u>
Less current installments	<u>201,093</u>			<u>167,569</u>	
Long-term debt, excluding current installments	\$ <u>5,346,660</u>			<u>5,181,966</u>	
	<u>2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>2018</u>	<u>Current Portion</u>
Long-term debt					
2010 revenue bonds:					
Series A	\$ 4,035,000	-	(110,000)	3,925,000	115,000
Series B	1,400,000	-	-	1,400,000	-
Capital lease obligations	<u>259,242</u>	<u>71,160</u>	<u>(107,649)</u>	<u>222,753</u>	<u>86,093</u>
Total long-term debt	5,694,242	<u>71,160</u>	<u>(217,649)</u>	5,547,753	<u>201,093</u>
Less current installments	<u>183,863</u>			<u>201,093</u>	
Long-term debt, excluding current installments	\$ <u>5,510,379</u>			<u>5,346,660</u>	

2010 Revenue bonds

The 2010 bond issue consists of Series A taxable bonds in the original amount of \$4,600,000 and Series B tax-exempt bonds in the original amount of \$1,400,000 dated May 1, 2010, which bear interest at 8.72% and 6.25%, respectively. The Series A bonds were issued as part of the Build America Bonds program and are subject to a 35% rebate of interest paid. The bonds are payable in annual installments through December 1, 2040. The Hospital is required to make monthly transfers of approximately \$46,000 to the debt service fund. Proceeds from the issuance of these bonds were used for renovation of the Hospital. The bonds are secured by the net revenues and accounts receivable of the Hospital and the assets restricted under the bond indenture agreement.

(Continued)

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Notes to Financial Statements

The indenture agreement requires that certain funds be established. Accordingly, these funds are included as funds held under bond indenture in the statements of financial position. The indenture agreement also requires the Hospital to comply with certain restrictive covenants including minimum insurance coverage, restrictions on incurrence of additional debt and maintaining a historical debt-service coverage ratio of at least 1.15 during construction and at least 1.40 thereafter. For the years ended September 30, 2019 and 2018, the Hospital's historical debt-service coverage ratio was 3.74 and 3.13, respectively.

The debt service requirements as of September 30, 2019 are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2020	\$ 120,000	414,725
2021	125,000	405,688
2022	130,000	395,800
2023	140,000	385,000
2024	145,000	373,600
2025-2029	845,000	1,689,031
2030-2034	1,125,000	1,383,344
2035-2039	1,500,000	838,800
2040-2041	<u>1,080,000</u>	<u>113,850</u>
Total	\$ <u>5,210,000</u>	<u>5,999,838</u>

Capital lease obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at September 30, 2019 and 2018 totaled \$161,198 and \$308,066, respectively, net of accumulated depreciation of \$125,555 and \$297,629, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates ranging from 6.01% to 6.41% together with the present value of the future minimum lease payments as of September 30, 2019:

<u>Year Ending September 30,</u>	
2020	\$ 54,817
2021	49,067
2022	<u>49,067</u>
	152,951
Less amount representing interest	<u>13,416</u>
Present value of future minimum lease payments	\$ <u>139,535</u>

(Continued)

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Notes to Financial Statements

(9) Pension Plans

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 the Hospital. 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 payroll were 3.89% and 1.06% for 2019 and 4.55% and 1.04% for 2018, respectively. Contributions actually made by plan members and the Hospital aggregated \$208,939 and \$57,095, respectively, during 2019, and \$225,887 and \$51,815, respectively, during 2018.

(10) 340B Drug Pricing Program

The Hospital began participating in the 340B Drug Pricing Program (340B Program) during 2016, enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues of \$729,537 and \$701,463 for the years ended September 30, 2019 and 2018, respectively, which is included in other operating revenue in the accompanying statements of revenues, expenses and changes in net position. The Hospital recorded expenses of \$278,951 and \$295,497 for the years ended September 30, 2019 and 2018, respectively, which is included in supplies and other in the accompanying statements of revenues, expenses and changes in net position. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

(Continued)

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
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Notes to Financial Statements

(11) Disclosures About Fair Value of Assets and Liabilities

Fair value is 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 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 or liabilities
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; 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 or liabilities
- Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2019 and 2018:

	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2019				
Investments by fair value				
level U.S. agencies obligations	\$ <u>465,373</u>	<u>465,373</u>	<u>-</u>	<u>-</u>
September 30, 2018				
Investments by fair value				
level U.S. agencies obligations	\$ <u>442,108</u>	<u>442,108</u>	<u>-</u>	<u>-</u>

(Continued)

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
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Notes to Financial Statements

(12) St. Luke Hospital Foundation

Financial statements

As discussed in note 1, the Foundation meets the component unit criteria under governmental accounting and reporting standards and is therefore discretely presented as a component unit in the Hospital's financial statements. The financial statements of the Foundation are presented in accordance with the provisions of the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC). The FASB ASC establishes standards for external financial statements of not-for-profit organizations and requires a statement of financial position, a statement of activities and a statement of cash flows. As permitted by Governmental Accounting Standards Board (GASB) Statement No. 34, the Hospital has elected not to present a statement of cash flows for the Foundation in the basic financial statements of the Hospital's reporting entity.

Contributions receivable

Contributions receivable consisted of the following:

	<u>2019</u>	<u>2018</u>
Due within one year	\$ 39,366	41,902
Due within years two through five	<u>42,279</u>	<u>78,890</u>
	81,645	120,792
Less allowance for uncollectible contributions	<u>13,100</u>	<u>12,900</u>
	<u>\$ 68,545</u>	<u>107,892</u>

The contributions receivable are all restricted for the Building Project as described in note 5.

Net assets with donor restrictions

Net assets with donor restrictions are those whose use by the Foundation has been limited by donors to a specific time period or purpose or have been restricted by donors to be maintained by the Foundation in perpetuity. The Foundation's net assets with donor restrictions at September 30, 2019 and 2018 are all restricted for the Building Project as described in note 5.

Functional allocation of expenses

The costs of providing the Foundation's programs and administration have been summarized in the Statements of Activities. Accordingly, expenses that benefit both programs and supporting services have been allocated using management's estimates.

(Continued)

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
d/b/a St. Luke Hospital and Living Center

Notes to Financial Statements

Liquidity and availability

The Foundation's financial assets available within one year of the statement of financial position date for general expenditures included the following assets of the Foundation at September 30, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Cash	\$ 887,073	1,040,010
Certificate of deposit	<u>62,265</u>	<u>122,060</u>
Subtotal	949,338	1,162,070
Less net assets with donor restrictions	<u>(327,842)</u>	<u>735,702</u>
Financial assets available within one year	<u>\$ 621,496</u>	<u>426,368</u>

Change in accounting principle

In 2019, the Foundation adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for Profit Entities*. A summary of the changes is as follows:

Statement of financial position and disclosures

The statement of financial position distinguishes between two new classes of net assets - those with donor-imposed restrictions and those without. This is a change from the previously required three classes of net assets - unrestricted, temporarily restricted and permanently restricted.

Enhanced quantitative and qualitative disclosures provide additional information useful in assessing liquidity and cash flows available to meet operating expenses for one year from the date of the statement of financial position.

These changes had no impact on previously reported total change in net assets.

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
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Comparison of Revenues and Expenses (Cash Basis) - Actual and Tax Budget
Calendar Year Ended December 31, 2018

	<u>Actual</u>	<u>Tax Budget</u>	Actual Over (Under) <u>Budget</u>
Net patient and resident service revenue	\$ 11,111,764	9,730,000	1,381,764
Other revenue	<u>978,160</u>	<u>574,600</u>	<u>403,560</u>
Total operating revenue	12,089,924	10,304,600	1,785,324
Operating expenses	11,846,427	14,620,782	(2,774,355)
Interest paid	<u>439,351</u>	<u>-</u>	<u>439,351</u>
Operating expenses	<u>12,285,778</u>	<u>14,620,782</u>	<u>(2,335,004)</u>
Operating loss	<u>(195,854)</u>	<u>(4,316,182)</u>	<u>4,120,328</u>
Property tax revenue	838,130	836,678	1,452
Other nonoperating revenues	<u>268,619</u>	<u>147,171</u>	<u>121,448</u>
Total nonoperating revenues	<u>1,106,749</u>	<u>983,849</u>	<u>122,900</u>
Excess (deficiency) of revenue over expenses	\$ <u><u>910,895</u></u>	<u><u>(3,332,333)</u></u>	<u><u>4,243,228</u></u>

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS
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Insurance Coverage

September 30, 2019

	<u>Coverage Limits</u>
CHUBB	
Expiring October 1, 2019	
Building and contents	\$ 22,277,000
Electronic data processing equipment	Including in building and contents
Business income with extra expense	6,346,771
Flood	500,000
Earthquake	5,000,000
Cincinnati Insurance Company	
Expiring October 1, 2019	
Directors and officers with employment practices	2,000,000
Expiring October 28, 2019	
Employee theft	500,000
Forgery and alteration	500,000
Expiring October 28, 2019	
Commercial automobile	1,000,000
KHA Workers' Compensation Fund, Inc.	
Expiring January 1, 2020	
Workers' compensation:	
Per accident	500,000
Per employee disease	500,000
Policy limit	500,000
Kansas Medical Mutual Insurance Company	
Expiring October 15, 2019	
Professional liability	200,000/600,000
Kansas Healthcare Stabilization Fund	800,000/2,400,000
General liability	1,000,000/3,000,000
Fire legal liability	50,000
Old Republic Surety Company	
Expiring January 1, 2020	
Durable medical equipment	50,000
Resident Fund Surety Bond	10,000