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

Financial Statements

Years Ended September 30, 2022 and 2021

(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, 2022 and 2021

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Marion County Hospital District #1 of Marion County, Kansas
d/b/a St. Luke Hospital and Living Center
Marion, Kansas:

Opinions

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, 2022 and 2021, 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 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 (the Hospital) and of its discretely presented component unit, as of September 30, 2022 and 2021 and the respective changes in financial position, and, where applicable cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of St. Luke Hospital and Living Center 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 these financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

(Continued)

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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 St. Luke Hospital and Living Center's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgement 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 St. Luke Hospital and Living Center's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about St. Luke Hospital and Living Center's ability to continue as a going concern for a reasonable period of time.

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

St. Luke Hospital and Living Center has omitted its 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 consider 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.

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Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise St. Luke Hospital and Living Center's basic financial statements. The accompanying supplementary data included in Schedule 1 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, such information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Dohman, Akerlund & Eddy, LLC

Aurora, Nebraska
April 13, 2023

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

Statements of Financial Position

September 30, 2022 and 2021

Assets	2022	2021
Current assets:		
Cash and cash equivalents	$ 15,137,991	12,073,123
Other interest bearing deposits	-	1,278,079
Restricted cash - held under bond indenture	215,869	303,207
Patient and resident accounts receivable, net of contractual adjustments and estimated uncollectibles of $1,598,691 in 2022 and $1,743,751 in 2021	1,704,047	1,707,693
Receivable from St. Luke Hospital Foundation	47,156	650,069
Other receivables	349,443	235,556
Supplies	312,161	257,001
Prepaid expenses	100,141	79,819
Estimated third-party payor settlements	685,000	660,000
Total current assets	18,551,808	17,244,547
Assets whose use is limited or restricted, held under bond indenture for debt service	326,391	346,139
Other receivables	15,021	17,771
Capital assets	16,057,428	15,840,019
Less accumulated depreciation	9,751,679	9,104,089
Net capital assets	6,305,749	6,735,930
	$ 25,198,969	24,344,387

See accompanying notes to financial statements.

Liabilities and Net Position	2022	2021
Current liabilities:		
Current maturities of long-term debt	$ 200,000	200,000
Current maturities of lease obligations	-	47,430
Accounts payable	517,892	328,997
Accrued expenses - salaries, wages and benefits	739,790	848,702
Accrued interest payable	48,000	48,500
Advanced insurance proceeds	4,172	-
Advanced grants	824,530	995,245
Estimated third-party payor settlements	50,000	279,104
Total current liabilities	2,384,384	2,747,978
Long-term debt, excluding current maturities	4,605,000	4,805,000
Total liabilities	6,989,384	7,552,978
Net position:		
Net investment in capital assets	1,500,749	1,683,500
Restricted - expendable for debt service	542,260	649,346
Unrestricted	16,166,576	14,458,563
Total net position	18,209,585	16,791,409
	$ 25,198,969	24,344,387

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, 2022 and 2021

	2022	2021
Operating revenues:		
Net patient and resident service revenue	$ 15,039,640	14,721,944
Provision for bad debts	(488,656)	(473,735)
Net patient and resident service revenue, less provision for bad debts	14,550,984	14,248,209
Other revenue	1,614,746	1,586,905
Total operating revenues	16,165,730	15,835,114
Operating expenses:		
Salaries and wages	6,423,402	6,208,551
Employee benefits	1,478,526	1,262,401
Supplies and other	7,460,544	7,208,375
Depreciation	857,510	754,891
Total operating expenses	16,219,982	15,434,218
Operating income (loss)	(54,252)	400,896
Nonoperating revenues (expenses):		
Property taxes	887,671	896,909
Investment income	154,077	24,242
Build America Bonds subsidy	-	17,559
Interest expense	(145,887)	(209,123)
Debt issuance costs	-	(123,352)
Paycheck Protection Program loan forgiveness	-	1,165,782
Grants - provider relief funds	241,875	2,376,890
Noncapital grants and contributions	254,692	173,107
Gain on disposition of capital assets	-	29,211
Total nonoperating revenues	1,392,428	4,351,225
Excess of revenues over expenses	1,338,176	4,752,121
Capital grants and contributions	80,000	648,159
Capital grants - provider relief funds	-	748,044
Increase in net position	1,418,176	6,148,324
Net position, beginning of year	16,791,409	10,643,085
Net position, end of year	$ 18,209,585	16,791,409

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, 2022 and 2021

Increase or Decrease in Cash and Cash Equivalents	2022	2021
Cash flows from operating activities:		
Cash received:		
Patients, residents, and third-party payors	$ 14,300,526	13,553,271
Other revenue	1,544,933	1,229,833
Cash paid to and on behalf of employees	(8,010,840)	(7,502,167)
Cash paid to suppliers	(7,366,584)	(7,259,915)
Net cash provided by operating activities	468,035	21,022
Cash flows from noncapital financing activities:		
Property taxes received	896,129	889,469
Noncapital grants and contributions received	790,430	161,798
Grants repaid - provider relief fund	(332,281)	-
Grants received - provider relief fund	470,616	143,928
Net cash provided by noncapital financing activities	1,824,894	1,195,195
Cash flows from capital and related financing activities:		
Capital expenditures	(410,807)	(2,102,645)
Capital grants and gifts received	80,000	-
Proceeds from the issuance of long-term debt	-	5,005,000
Principal payments on long-term debt	(200,000)	(5,090,000)
Principal payments on lease obligations	(47,430)	(44,536)
Proceeds from sale of capital assets	-	57,646
Build America Bonds subsidy	-	53,282
Debt issuance costs	-	(123,352)
Interest paid	(146,387)	(285,333)
Net cash used by capital and related financing activities	(724,624)	(2,529,938)
Cash flows from investing activities:		
Interest income received	111,398	25,054
Investment in other interest bearing deposits	(2,606)	(1,278,079)
Withdrawals from other interest bearing deposits	1,280,685	1,270,706
Net change in construction escrow and debt-related accounts	19,748	132,239
Net cash provided by investing activities	1,409,225	149,920
Net increase (decrease) in cash and cash equivalents	2,977,530	(1,163,801)
Cash and cash equivalents, beginning of year	12,376,330	13,540,131
Cash and cash equivalents, end of year	$ 15,353,860	12,376,330
Reconciliation of cash and cash equivalents to the statements of financial position:		
Cash and cash equivalents	$ 15,137,991	12,073,123
Restricted cash - held under bond indenture	215,869	303,207
	$ 15,353,860	12,376,330

(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, 2022 and 2021

Reconciliation of Operating Income or Loss to Net Cash Provided by Operating Activities		2022	2021
Operating income (loss)	$	(54,252)	400,896
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation		857,510	754,891
Provision for bad debts		488,656	473,735
Decrease (increase) in:			
Patient and resident accounts receivable		(485,010)	(517,448)
Other receivables		(76,916)	(24,354)
Inventories		(55,160)	(34,478)
Prepaid expenses		(20,322)	(1,471)
Estimated third-party payor settlements		(25,000)	(660,000)
Increase (decrease) in:			
Accounts payable		172,373	(43,101)
Accrued expenses - salaries, wages and benefits		(108,912)	(31,215)
Advanced insurance proceeds		4,172	(305,208)
Estimated third-party payor settlements		(229,104)	8,775
Net cash provided by operating activities	$	468,035	21,022

Supplemental Disclosures of Cash Flows Information

Paycheck Protection Program loan interest forgiven	$	-	12,082
Capital asset additions included in accounts payable	$	16,522	5,521

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, 2022 and 2021

Assets	2022	2021
Cash	$ 396,927	1,009,859
Certificates of deposit	324,339	318,250
Contributions receivable, net of allowance of $700 in 2021	-	6,270
Property plant and equipment, net of accumulated depreciation of $17,675 in 2022 and $15,445 in 2021	69,274	81,504
Total assets	$ 790,540	1,415,883
Liabilities and Net Assets		
Accounts payable	$ 6,748	2,795
Contributions payable to St. Luke Hospital and Living Center	47,156	650,069
Total liabilities	53,904	652,864
Net assets without donor restrictions	736,636	763,019
	$ 790,540	1,415,883

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, 2022 and 2021

	2022	2021
Unrestricted revenues, gains and other support:		
Contributions	$ 34,482	32,089
Thrift Shoppe income	114,463	110,728
Interest income	8,806	7,973
Gain on insurance proceeds	33,720	-
Net assets released from restriction for the Hospital building project	66,967	667,694
Total revenues, gains and other support	258,438	818,484
Unrestricted expenses:		
Support to St. Luke Hospital and Living Center	206,228	730,581
Administration	39,394	41,880
Fundraising	8,986	966
Thrift Shoppe expenses	30,213	27,863
Total expenses	284,821	801,290
Increase (decrease) in net assets without donor restrictions	(26,383)	17,194
Net assets with donor restrictions:		
Grants and contributions	67,320	150,799
Provision for uncollectible pledges	(353)	5,128
Net assets released from restriction for the Hospital projects	(66,967)	(667,694)
Increase (decrease) in net assets with donor restrictions	-	(511,767)
Decrease in net assets	(26,383)	(494,573)
Net assets, beginning of year	763,019	1,257,592
Net assets, end of year	$ 736,636	763,019

See accompanying notes to financial statements.

(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 (the 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, 2022 and 2021, cash equivalents consisted primarily of money market accounts.

Property taxes

The Hospital received approximately 5.1% and 4.6% of its financial support from property taxes for the years ended September 30, 2022 and 2021, 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)

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.

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.

(Continued)

The following estimated useful lives are being used by the Hospital:

	Life in Years
Land improvements	10
Buildings and improvements	10-50
Fixed equipment	3-20
Moveable equipment	3-20

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.

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.

(Continued)

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 $25,548 and $36,353 for the years ended September 30, 2022 and 2021, 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, 2022 and 2021, the Foundation provided $206,228 and $730,581, respectively, of support to the Hospital.

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.

(Continued)

New accounting and reporting standards

- On October 1, 2021, the Hospital adopted GASB Statement No. 87 - *Leases*. The statement requires a lessee to recognize a lease liability and an intangible right-to-use lease asset at the commencement of the lease term, unless the lease is a short-term lease or if it transfers ownership of the underlying asset. The lease liability is measured at the present value of payments expected to be made during the lease term while the right-to use asset is measured at the amount of the lease liability, plus any payments made to the lessor at or before commencement of the lease term and certain direct costs. The new standard is to be applied to all applicable leases as of the beginning of the earliest period presented and therefore prior period financial statements are to be restated. Management reviewed all lease arrangements and determined there were no existing material leases requiring restatement under GASB 87. Additionally, financial statement note disclosures were revised in accordance with GASB 87.

- On October 1, 2021, the Hospital adopted GASB Statement No. 89 - *Accounting for Interest Cost Incurred Before the End of a Construction Period*. This new statement requires interest cost incurred before the end of a construction period to be recognized as an expense in the period in which the cost is incurred. Such interest cost will not be included in the historical cost of the capital asset reported in a business-type activity or enterprise fund. The implementation of GASB No. 89 did not have any impact on the Hospital's financial statements.

(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 (MAC). 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, 2020.

(Continued)

Beginning April 1, 2013, a mandatory payment reduction, known as sequestration, of 2% went into effect. On March 27, 2020, the CARES Act temporarily exempted Medicare from the effects of sequestration. This exemption was in effect from May 1, 2020 through March 31, 2022. From April 1, 2022 to June 30, 2022, a 1% reduction occurred and after June 30, 2022, the full 2% reduction was effective again.

- **Medicaid:** Inpatient and outpatient services provided 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. That add-on percentage may be rebased at some time in the future.

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

Approximately 60% and 61% of net patient and resident service revenues for the years ended September 30, 2022 and 2021, 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. Net patient service revenue increased by approximately $279,000 and $145,000 for the years ended September 30, 2022 and 2021, respectively, as the result of final settlements on previously filed Medicare cost reports.

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)

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

	2022	2021
Net patient and resident service revenue:		
Gross patient and resident service revenue:		
Medicare	$ 11,193,106	12,274,360
Medicaid	2,242,361	2,221,908
Commercial insurance and other	8,204,153	8,058,283
Uninsured/self-pay	1,289,667	1,160,753
Charity care deductions	(38,659)	(59,596)
Gross patient and resident service revenue (after charity care)	22,890,628	23,655,708
Contractual adjustments:		
Medicare	3,585,015	4,864,978
Medicaid	888,891	609,724
Commercial insurance and other	3,377,082	3,459,062
Total contractual adjustments	7,850,988	8,933,764
Net patient and resident service revenue	15,039,640	14,721,944
Provision for bad debts	(488,656)	(473,735)
Net patient and resident service revenue, less provision for bad debts	$ 14,550,984	14,248,209

(3) COVID-19 – Provider Relief Funds and Other COVID-19 Programs

In December 2019, a novel strain of the coronavirus (COVID-19) originated in Wuhan, China and spread to other countries, including the United States of America (U.S.). On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic and on March 13, 2020 the President of the U.S. declared an emergency under sections 201 and 301 of the National Emergencies Act. Since this declaration, the Hospital has operated within the guidelines provided by both state and federal regulatory agencies. Additionally, many state and local governments instituted emergency restrictions that have substantially limited the operation of non-essential businesses and the activities of individuals. These restrictions have impacted the Hospital's overall service volumes for the last two years. The U.S. Congress passed the Families First Coronavirus Response Act, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and the American Rescue Plan Act (ARP Act) to provide various relief programs and direct funds to both health care providers, such as the Hospital, and the general public to assist during the duration of the pandemic.

(Continued)

Under the authority of the CARES Act, the U.S. Department of Health and Human Services (HHS) has established various provider relief funds to distribute funds to health care providers. The Hospital received provider relief fund distributions of $470,616, $143,928 and $3,909,076 during the years ended September 30, 2022, 2021 and 2020, respectively. The terms and conditions associated with accepting the provider relief funds can vary based on the specific distribution received. The majority of the funds received by the Hospital specifically state they can only be used to prevent, prepare for, and respond to coronavirus health care-related expenses or lost revenues that are attributable to the coronavirus. Recipients are required to file reports with HHS regarding the use of these funds for eligible purposes. Any unused funds are required to be returned to HHS.

The receipt of these funds are considered voluntary nonexchange transactions and recorded as a liability, advanced grants, and are recognized as nonoperating revenues in the accompanying statements of revenues, expenses and changes in net position as all the terms and conditions are considered met. The terms and conditions are subject to interpretation, changes and future clarification, the most recent of which have been considered through the date the financial statements were available to be issued. In addition, the funds may be subject to oversight, monitoring and audit. Failure to comply with any term or condition can subject the Hospital to recoupment of some or all of the distributions. The Hospital believes it has met certain terms and conditions during the applicable reporting periods and therefore recognized $241,875 and $3,124,934 as grants - provider relief funds and capital grants - provider relief funds for the years ended September 30, 2022 and 2021, respectively. As part of the period 1 provider relief fund reporting the Hospital paid back $332,281 of the period 1 funds. The remaining funds are being reported as a current liability, advanced grants. The laws and regulations associated with the CARES Act funds 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 also received grant funds totaling $2,120, $144,896 and $203,034 for the years ended September 30, 2022, 2021 and 2020, respectively, from the State of Kansas and other sources related to COVID-19. The Hospital recognized $69,295, $164,895 and 115,860 as noncapital grants and contributions for years ended September 30, 2022, 2021 and 2020, respectively.

(4) 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)

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, 2022 and 2021, the Hospital's bank balances were exposed to custodial credit risk as follows:

	2022	2021
Bank balances:		
Insured and collateralized	$ 15,397,797	13,721,008
Petty cash and outstanding items	(43,937)	(66,599)
	$ 15,353,860	13,654,409

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, 2022 and 2021, the Hospital had the following investments and maturities:

	2022				
		Maturities in Years			
Type	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. agencies obligations	$ 326,391	157,174	86,747	82,470	-

	2021				
		Maturities in Years			
Type	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. agencies obligations	$ 346,139	156,292	95,478	94,369	-

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 2020 bond covenants. AMG invests the funds in U.S. agencies obligations. A very limited amount of interest is earned on the funds annually.

(Continued)

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, 2022 and 2021, 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, 2022 and 2021, 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:

	2022	2021
Carrying value:		
Deposits	$ 15,353,560	13,654,109
Petty cash	300	300
Investments	326,391	346,139
	$ 15,680,251	14,000,548

Included in the following statements of financial position captions:

	2022	2021
Cash and cash equivalents	$ 15,137,991	12,073,123
Other interest bearing deposits	-	1,278,079
Restricted cash - held under bond indenture	215,869	303,207
Held under bond indenture for debt service	326,391	346,139
	$ 15,680,251	14,000,548

(Continued)

Investment income

All investment income for the years ended September 30, 2022 and 2021 consisted of interest income.

(5) 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, 2022 and 2021 consisted of the following:

	2022	2021
Receivable from:		
Patients and residents	$ 711,085	830,046
Patients and residents' insurance carriers	1,178,996	1,211,912
Medicare	1,065,005	1,200,320
Medicaid	347,652	209,166
Total patient and resident accounts receivable	3,302,738	3,451,444
Allowances for:		
Contractual adjustments	990,100	1,139,701
Uncollectible accounts	608,591	604,050
Total allowances	1,598,691	1,743,751
Net patient and resident accounts receivable	$ 1,704,047	1,707,693

(Continued)

(6) Capital Assets

Capital asset additions, transfers/retirements, and balances for the years ended September 30, 2022 and 2021 were as follows:

	2021	Additions	Transfers/ Retirements	2022
Historical costs				
Land (not being depreciated)	$ 28,253	-	-	28,253
Land improvements	226,549	11,836	-	238,385
Buildings and improvements	10,134,569	24,272	12,938	10,171,779
Fixed equipment	1,421,621	183,333	10,057	1,615,011
Major moveable equipment	3,899,454	130,305	(47,598)	3,982,161
Construction in progress	129,573	230,321	(338,055)	21,839
Total historical costs	15,840,019	580,067	(362,658)	16,057,428
Less accumulated depreciation				
Land improvements	(69,893)	(13,530)	-	(83,423)
Buildings and improvements	(5,683,842)	(472,013)	-	(6,155,855)
Fixed equipment	(629,078)	(79,167)	-	(708,245)
Major moveable equipment	(2,721,276)	(292,800)	209,920	(2,804,156)
Total accumulated depreciation	(9,104,089)	(857,510)	209,920	(9,751,679)
Net capital assets	$ 6,735,930	(277,443)	(152,738)	6,305,749

(Continued)

	2020	Additions	Transfers/ Retirements	2021
Historical costs				
Land (not being depreciated)	$ 28,253	-	-	28,253
Land improvements	80,527	146,022	-	226,549
Buildings and improvements	9,984,275	150,294	-	10,134,569
Fixed equipment	701,978	719,643	-	1,421,621
Major moveable equipment	3,533,073	951,592	(585,211)	3,899,454
Construction in progress	-	129,573	-	129,573
Total historical costs	14,328,106	2,097,124	(585,211)	15,840,019
Less accumulated depreciation				
Land improvements	(62,963)	(6,930)	-	(69,893)
Buildings and improvements	(5,218,515)	(465,327)	-	(5,683,842)
Fixed equipment	(584,916)	(44,162)	-	(629,078)
Major moveable equipment	(3,039,580)	(238,472)	556,776	(2,721,276)
Total accumulated depreciation	(8,905,974)	(754,891)	556,776	(9,104,089)
Net capital assets	$ 5,422,132	1,342,233	(28,435)	6,735,930

Construction in progress at November 30, 2022 pertains to architectural fees related to a remodeling project of the front desk reception and billing area. This project started in fall of 2022 and is expected to be completed in winter of 2023, at a contracted cost of approximately $151,000.

(7) 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)

Activity in the Hospital's accrued employee health claims liability during 2022 is summarized as follows:

Balance, beginning of year (accrued expenses)	$ 45,525
Current year claims incurred and changes in estimates for claims incurred in prior years	911,695
Claims and expenses paid	(871,343)
Balance, end of year (accrued expenses)	$ 85,877

(8) 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)

(9) Long-term Debt

A schedule of changes in the Hospital's long-term debt obligations for the years ended September 30, 2022 and 2021 is as follows:

	2021	Additions	Reductions	2022	Current Portion
Long-term debt, 2020 revenue bonds	$ 5,005,000	-	(200,000)	4,805,000	200,000
Less current installments	200,000			200,000	
Long-term debt, excluding current installments	$ 4,805,000			4,605,000	

	2020	Additions	Reductions	2021	Current Portion
Long-term debt:					
2020 revenue bonds	$ -	5,005,000	-	5,005,000	200,000
2010 revenue bonds:					
Series A	3,690,000	-	(3,690,000)	-	-
Series B	1,400,000	-	(1,400,000)	-	-
Total long-term debt	5,090,000	5,005,000	(5,090,000)	5,005,000	200,000
Less current installments	125,000			200,000	
Long-term debt, excluding current installments	$ 4,965,000			4,805,000	

(Continued)

2020 Revenue bonds

On November 24, 2020, the Hospital issued $5,005,000 of Series 2020 Hospital Refunding Revenue Bonds (Series 2020 Bonds). The proceeds were used to refund the existing Series A and B 2010 Refunding Bonds. The Series 2020 Bonds carry interest rates varying from .75% to 3.75% and require annual principal payments on December 1 and semiannual interest payments on June 1 and December 1 beginning June 1, 2021 with a final maturity date of December 1, 2040. The Hospital is required to make monthly transfers of approximately $29,000 to the debt service fund. The bonds are secured by the net revenues and accounts receivable of the Hospital and the assets restricted under the bond indenture agreement.

2010 Revenue bonds

The 2010 bond issue consisted 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, and beared interest at 8.72% and 6.25%, respectively. The Series A and Series B bonds were called and fully refunded during 2021 with the net proceeds of the Series 2020 Bonds.

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 1.10. For the years ended September 30, 2022 and 2021, the Hospital's historical debt-service coverage ratio was 6.0 and 12.5, respectively.

The debt service requirements as of September 30, 2022 are as follows:

Year ending September 30,	Principal	Interest
2023	$ 200,000	143,000
2024	205,000	140,719
2025	205,000	137,900
2026	210,000	134,525
2027	215,000	130,538
2028-2032	1,155,000	567,730
2033-2037	1,350,000	362,075
2038-2041	1,265,000	97,031
Total	$ 4,805,000	1,713,518

(Continued)

(10) Lease Obligations

A schedule of changes in the Hospital's lease obligations for the years ended September 30, 2022 and 2021 is as follows:

	2021	Additions	Reductions	2022	Current Portion
Long-term lease obligations	$ 47,430	-	(47,430)	-	-
Less current installments	47,430			-	
Long-term lease obligations, excluding current installments	$ -			-	

	2020	Additions	Reductions	2021	Current Portion
Long-term lease obligations	$ 91,966	-	(44,536)	47,430	47,430
Less current installments	44,536			47,430	
Long-term lease obligations, excluding current installments	$ 47,430			-	

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Net book value of assets under capital leases at September 30, 2022 and 2021 totaled $13,743 and $51,237, respectively, net of accumulated depreciation of $201,850 and $164,356, respectively.

(Continued)

(11) Paycheck Protection Program Loan

The Paycheck Protection Program (PPP) was established by the CARES Act to provide a direct incentive for small businesses to keep their workers on payroll during the COVID-19 pandemic. The PPP loans are administered by the Small Business Administration (SBA) and provide direct loans to qualifying business entities through SBA approved lending institutions (banks). The funds are intended to be used for paying employee wages and other critical expenses, such as mortgage interest and utilities. The PPP loans are two or five-year promissory notes with a 1% interest rate, with six months of deferred interest payments and require no collateral or personal guarantees. Additionally, the entire loan and applicable interest, or a portion thereof, can qualify for forgiveness if the proceeds are used for defined forgivable purposes, such as employee wages and benefits, that are incurred and paid within a covered time period and other stipulations are met.

The Hospital applied for and received a PPP loan totaling $1,153,700 on April 30, 2020. The loan carried a 1% interest rate, with interest only payments deferred for ten months after the loan forgiveness covered period. The Hospital applied for and received complete forgiveness of the loan and all interest, a total amount of $1,165,782, on May 12, 2021.

(12) 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 3.72% and .89% for 2022 and 3.69% and .98% for 2021, respectively. Contributions actually made by plan members and the Hospital were $239,052 and $57,088, respectively, during 2022, and $229,146 and $60,632, respectively, during 2021.

(Continued)

(13) 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 $1,461,884 and $1,410,593 for the years ended September 30, 2022 and 2021, respectively, which is included in other operating revenue in the accompanying statements of revenues, expenses and changes in net position. The Hospital recorded pharmacy supply expenses of $429,431 and $644,173 for the years ended September 30, 2022 and 2021, 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.

(14) 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

(Continued)

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, 2022 and 2021:

	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2022 investments by fair value level U.S. agencies obligations	$ 326,391	326,391	-	-
September 30, 2021 investments by fair value level U.S. agencies obligations	$ 346,139	346,139	-	-

(15) 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 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.

(Continued)

Contributions receivable

Contributions receivable consisted of the following:

	2022	2021
Due within one year	$ -	6,970
Due within years two through five	-	-
	-	6,970
Less allowance for uncollectible contributions	-	700
	$ -	6,270

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. At September 30, 2022 and 2021, there were no net assets with restrictions on them.

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.

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, 2022 and 2021:

	2022	2021
Cash	$ 396,927	1,009,859
Certificates of deposit	324,339	318,250
Subtotal	721,266	1,328,109
Less amounts payable to the Hospital	47,156	650,069
Financial assets available within one year	$ 674,110	678,040

Schedule 1

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

Comparison of Revenues and Expenses (Cash Basis) - Actual and Tax Budget

Calendar Year Ended December 31, 2021

	Actual	Tax Budget	Actual Over (Under) Budget
Net patient and resident service revenue	$ 14,252,187	11,150,000	3,102,187
Other revenue	3,120,322	947,000	2,173,322
Total operating revenue	17,372,509	12,097,000	5,275,509
Total operating expenses	16,141,747	17,083,966	(942,219)
Interest paid	152,153	405,531	(253,378)
Operating expenses	16,293,900	17,489,497	(1,195,597)
Operating income (loss)	1,078,609	(5,392,497)	6,471,106
Property tax revenue	890,472	881,057	9,415
Other nonoperating revenues	152,000	229,810	(77,810)
Total nonoperating revenues	1,042,472	1,110,867	(68,395)
Excess (deficiency) of revenues over expenses	$ 2,121,081	(4,281,630)	6,402,711