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

Financial Statements

Years Ended September 30, 2021 and 2020

(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, 2021 and 2020

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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, 2021 and 2020, 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 an opinion 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, the Kansas Municipal Audit and Accounting Guide and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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.

(Continued)

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

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, 2021 and 2020 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, 2021 and 2020 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.

Other Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the basic financial statements as a whole. The supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. The schedule of expenditures of federal awards (Schedule 2) is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* and is not a required part of the basic financial statements. Schedules 1 and 2 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, has been subjected to the auditing procedures applied in the audit 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, Schedules 1 and 2, are fairly stated in all material respects in relation to the basic financial statements as a whole.

(Continued)

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated March 2, 2023 on our consideration of St. Luke Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering St. Luke Hospital's internal control over financial reporting and compliance.

Dohman, Akerlund & Eddy, LLC

Aurora, Nebraska
March 2, 2023

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, 2021 and 2020

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, 2021 and 2020. It should be read in conjunction with the accompanying financial statements of the Hospital.

Financial Highlights

- Cash and cash equivalents decreased by $1,225,112 or 9% and increased by $6,745,847 or 103% in 2021 and 2020, respectively.
- The Hospital's net position increased by $6,148,324 or 58% and $1,347,803 or 15% in 2021 and 2020, respectively.
- The Hospital recorded operating income of $400,896 and $497,490 in 2021 and 2020, respectively. This was a decrease of $96,594 in operating results as compared to fiscal year 2020. The fiscal year 2020 operating income was an increase of $225,591 compared to the fiscal year 2019 operating income 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)

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 $6,148,324 or 58% in 2021 over 2020, and increased by $1,347,803 or 15% in 2020 over 2019, as shown in Table 1.

(Continued)

Table 1: Assets, Liabilities and Net Position

	2021	2020	2019
Assets			
Cash and cash equivalents	$ 12,073,123	13,298,235	6,552,388
Other interest-bearing deposits	1,278,079	1,270,706	1,255,917
Restricted cash - held under bond indenture	649,346	720,274	708,730
Patient accounts receivable, net	1,707,693	1,663,980	1,530,552
Other current assets	1,232,376	548,769	550,134
Receivable from the Foundation	650,069	-	-
Capital assets, net	6,735,930	5,422,132	5,722,418
Other assets	17,771	20,770	23,520
Total assets	$ 24,344,387	22,944,866	16,343,659
Liabilities			
Long-term debt, including current portion	$ 5,052,430	6,335,666	5,349,535
Accounts payable	328,997	377,619	290,989
Accrued expenses - salaries, wages and benefits	848,702	879,917	724,481
Accrued interest payable	48,500	136,792	139,692
Advanced insurance proceeds	-	305,208	-
COVID-19 advanced grants	995,245	3,996,250	-
Estimated amounts due to third-party payors	279,104	270,329	543,680
Total liabilities	$ 7,552,978	12,301,781	7,048,377
Net Position			
Net investment in capital assets	$ 1,683,500	240,166	372,883
Restricted expendable for debt service	649,346	720,274	708,730
Unrestricted	14,458,563	9,682,645	8,213,669
Total net position	$ 16,791,409	10,643,085	9,295,282
Total liabilities and net position	$ 24,344,387	22,944,866	16,343,659

The Hospital's assets increased by nearly $1,400,000 as significant capital asset purchases were made and the Hospital had a receivable for the 2021 Medicare cost report of $660,000. Liabilities decreased significantly as the Hospital received forgiveness of its $1,153,700 Paycheck Protection Program loan and recognized over $3,100,000 in provider relief grants by reducing the associated prior year advanced grants liability.

Operating Results and Changes in the Hospital's Net Position

In 2021, the Hospital's net position increased by $6,148,324 or 58%, as shown in Table 2. This increase is made up of several different components. The Hospital's net position increased by $1,347,803 or 15% in 2020.

(Continued)

Table 2: Operating Results and Changes in Net Position

	2021	2020	2019
Operating Revenues			
Net patient service revenue	$ 14,248,209	12,628,296	11,770,747
Other operating revenues	1,586,905	923,674	900,015
Total operating revenues	15,835,114	13,551,970	12,670,762
Operating Expenses			
Salaries and wages and employee benefits	6,208,551	5,789,576	5,369,106
Employee benefits	1,262,401	1,331,577	1,179,094
Supplies and other operating expenses	7,208,375	5,281,450	5,242,933
Depreciation	754,891	651,877	607,730
Total operating expenses	15,434,218	13,054,480	12,398,863
Operating income	400,896	497,490	271,899
Nonoperating Revenues (Expenses)			
Property taxes	896,909	871,753	848,371
Investment income	24,242	102,114	181,527
Build America Bonds subsidy	17,559	107,625	109,455
Interest expense	(209,123)	(419,073)	(430,281)
Debt issuance costs	(123,352)	-	-
Paycheck Protection Program loan forgiveness	1,165,782	-	-
Grants - provider relief funds	2,376,890	-	-
Noncapital grants and gifts	173,107	187,894	41,362
Gain on disposition of capital assets	29,211	-	-
Total nonoperating revenues	4,351,225	850,313	750,434
Excess of revenues over expenses	4,752,121	1,347,803	1,022,333
Capital Grants and Contributions	648,159	-	-
Capital Grants - provider relief grants	748,044	-	301,285
Increase in Net Position	$ 6,148,324	1,347,803	1,323,618

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 revenue and other operating revenues and the expenses incurred to perform those services. The Hospital has reported operating income in each of the last three years. Additionally, the Hospital levies property taxes to provide sufficient resources to enable the facility to serve lower income and other residents.

(Continued)

The Hospital experienced a large increase in overall operations in fiscal year 2021 due to the recognition of grant income related to provider relief funds, as well as the Paycheck Protection Program loan forgiveness. However, operating income for fiscal year 2021 decreased $96,594 or 19.4% from 2020. The primary components of this change in operating income were as follows:

- An increase in overall gross patient revenue of nearly $2.3 million or 10.6%, with the majority of the growth in outpatient service revenue.
- Outpatient revenues, including the physician clinic, grew by nearly $2 million or 10.7%, with the more significant dollar increases in anesthesiology/pain management and lab.
- An increase of 6.0% in contractual adjustments was experienced in connection with the rise in gross charges.
- An increase in salary expense of $418,975 or 7.2% due to FTEs increasing by 1.8% and average wage increases of 2.0%.
- A decrease of $69,176 or 5.2% in employee benefit costs. A significant component of this change was a decrease in employee health insurance expense.
- An increase of $1,926,925 or 36.5% in supplies and other operating costs as the pandemic created significant increases in contract staffing, professional fees, and supply costs.

For fiscal year 2020, the Hospital was having a strong year up to the time the COVID-19 pandemic hit as final operating income for 2020 increased $225,591 or 83% over the operating income of 2019. The primary components of this were as follows:

- An increase in overall gross patient revenue of nearly $1.4 million or 6.8%, with the majority of the growth in outpatient service revenue.
- Outpatient revenues, including the physician clinic, grew by over $1.2 million or 7.2%, with the more significant increases in anesthesiology/pain management, lab and wound care.
- An increase of 8.6% in contractual adjustments was experienced in connection with the rise in gross charges.
- An increase in salary expense of $420,470 or 8% due to FTEs increasing by 2.5% and average wage increases of 3%.
- An increase of $152,483 or 13% in employee benefit costs. A significant component of this change was an increase in employee health insurance expense.
- Supplies and other operating costs remained relatively flat.

(Continued)

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 (non-provider relief funds), both noncapital and capital, recognized in 2021 totaled $821,266 as compared to $187,894 in 2020. During 2021, the Hospital recognized provider relief grants, both noncapital and capital, totaling $3,124,934 as it filed the required reporting and believes it has met the terms and conditions specific to these grants.

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 2021, the Hospital had $6,735,930 invested in capital assets, net of accumulated depreciation, as detailed in note 6 to the financial statements. The Hospital had capital asset additions totaling $2,097,124 in 2021. The Hospital purchased various major moveable equipment and upgraded its heating, ventilation and air conditioning system. The Hospital incurred capital asset additions of $351,591 in 2020.

Debt

At September 30, 2021, the Hospital had $5,052,430 in long-term bond and capital lease obligations outstanding, as detailed in note 9 to the financial statements. During 2021, the Hospital refunded the 2010 revenue bonds by issuing 2020 revenue bonds with significantly less effective interest rates.

Additionally, included in long-term debt at September 30, 2020 was a COVID-19-related loan received under the Paycheck Protection Program of $1,153,700. The Hospital met the requirements to receive forgiveness of the Paycheck Protection Program loan during 2021 and recorded the forgiveness of principle and interest and nonoperating revenue accordingly.

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, 2021 and 2020

Assets	2021	2020
Current assets:		
Cash and cash equivalents	$ 12,073,123	13,298,235
Other interest bearing deposits	1,278,079	1,270,706
Restricted cash - held under bond indenture	303,207	241,896
Patient and resident accounts receivable, net of contractual adjustments and estimated uncollectibles of $1,743,751 in 2021 and $1,367,200 in 2020	1,707,693	1,663,980
Receivable from St. Luke Hospital Foundation	650,069	10,600
Other receivables	235,556	237,298
Supplies	257,001	222,523
Prepaid expenses	79,819	78,348
Estimated third-party payor settlements	660,000	-
Total current assets	17,244,547	17,023,586
Assets whose use is limited or restricted, held under bond indenture for debt service	346,139	478,378
Other receivables	17,771	20,770
Capital assets	15,840,019	14,328,106
Less accumulated depreciation	9,104,089	8,905,974
Net capital assets	6,735,930	5,422,132
	$ 24,344,387	22,944,866

See accompanying notes to financial statements.

Liabilities and Net Position	2021	2020
Current liabilities:		
Current maturities of long-term debt	$ 247,430	169,536
Accounts payable	328,997	377,619
Accrued expenses - salaries, wages and benefits	848,702	879,917
Accrued interest payable	48,500	136,792
Advanced insurance proceeds	-	305,208
Advanced grants	995,245	3,996,250
Estimated third-party payor settlements	279,104	270,329
Total current liabilities	2,747,978	6,135,651
Paycheck Protection Program loan	-	1,153,700
Long-term debt, excluding current maturities	4,805,000	5,012,430
Total liabilities	7,552,978	12,301,781
Net position:		
Net investment in capital assets	1,683,500	240,166
Restricted - expendable for debt service	649,346	720,274
Unrestricted	14,458,563	9,682,645
Total net position	16,791,409	10,643,085
	$ 24,344,387	22,944,866

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, 2021 and 2020

	2021	2020
Operating revenues:		
Net patient and resident service revenue	$ 14,721,944	12,968,380
Provision for bad debts	(473,735)	(340,084)
Net patient and resident service revenue, less provision for bad debts	14,248,209	12,628,296
Other revenue	1,586,905	923,674
Total operating revenues	15,835,114	13,551,970
Operating expenses:		
Salaries and wages	6,208,551	5,789,576
Employee benefits	1,262,401	1,331,577
Supplies and other	7,208,375	5,281,450
Depreciation	754,891	651,877
Total operating expenses	15,434,218	13,054,480
Operating income	400,896	497,490
Nonoperating revenues (expenses):		
Property taxes	896,909	871,753
Investment income	24,242	102,114
Build America Bonds subsidy	17,559	107,625
Interest expense	(209,123)	(419,073)
Debt issuance costs	(123,352)	-
Paycheck Protection Program loan forgiveness	1,165,782	-
Grants - provider relief funds	2,376,890	-
Noncapital grants and contributions	173,107	187,894
Gain on disposition of capital assets	29,211	-
Total nonoperating revenues	4,351,225	850,313
Excess of revenues over expenses	4,752,121	1,347,803
Capital grants and contributions	648,159	-
Capital grants - provider relief funds	748,044	-
Increase in net position	6,148,324	1,347,803
Net position, beginning of year	10,643,085	9,295,282
Net position, end of year	$ 16,791,409	10,643,085

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, 2021 and 2020

Increase or Decrease in Cash and Cash Equivalents	2021	2020
Cash flows from operating activities:		
Cash received:		
Patients, residents, and third-party payors	$ 13,553,271	12,221,517
Other revenue	1,229,833	1,268,905
Cash paid to and on behalf of employees	(7,502,167)	(6,965,717)
Cash paid to suppliers	(7,259,915)	(5,225,207)
Net cash provided by operating activities	21,022	1,299,498
Cash flows from noncapital financing activities:		
Property taxes received	889,469	870,104
Noncapital grants and contributions received	161,798	264,468
Grants - provider relief fund	143,928	3,909,076
Net cash provided by noncapital financing activities	1,195,195	5,043,648
Cash flows from capital and related financing activities:		
Capital expenditures	(2,102,645)	(346,070)
Proceeds from the issuance of long-term debt	5,005,000	-
Principal payments on long-term debt	(5,134,536)	(167,569)
Proceeds from sale of capital assets	57,646	-
Paycheck Protection Program loan proceeds	-	1,153,700
Build America Bonds subsidy	53,282	108,187
Debt issuance costs	(123,352)	-
Interest paid on long-term debt	(285,333)	(421,973)
Net cash provided (used) by capital and related financing activities	(2,529,938)	326,275
Cash flows from investing activities:		
Interest income received	25,054	102,759
Investment in other interest bearing deposits	(1,278,079)	(14,789)
Withdrawals from other interest bearing deposits	1,270,706	-
Net change in construction escrow and debt-related accounts	132,239	(13,005)
Net cash provided by investing activities	149,920	74,965
Net increase (decrease) in cash and cash equivalents	(1,163,801)	6,744,386
Cash and cash equivalents, beginning of year	13,540,131	6,795,745
Cash and cash equivalents, end of year	$ 12,376,330	13,540,131
Reconciliation of cash and cash equivalents to the statements of financial position:		
Cash and cash equivalents	$ 12,073,123	13,298,235
Restricted cash - held under bond indenture	303,207	241,896
	$ 12,376,330	13,540,131

(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, 2021 and 2020

Reconciliation of Operating Income to Net Cash Provided by Operating Activities	2021	2020
Operating income	$ 400,896	497,490
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	754,891	651,877
Provision for bad debts	473,735	340,084
Decrease (increase) in:		
Patient and resident accounts receivable	(517,448)	(473,512)
Other receivables	(24,354)	36,142
Inventories	(34,478)	(23,168)
Prepaid expenses	(1,471)	2,183
Estimated third-party payor settlements	(660,000)	-
Increase (decrease) in:		
Accounts payable	(43,101)	81,109
Accrued expenses - salaries, wages and benefits	(31,215)	155,436
Advanced insurance proceeds	(305,208)	305,208
Estimated third-party payor settlements	8,775	(273,351)
Net cash provided by operating activities	$ 21,022	1,299,498

Supplemental Disclosures of Cash Flows Information

Paycheck Protection Program loan interest forgiven	$ 12,082	-
Capital asset additions included in accounts payable	$ -	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, 2021 and 2020

Assets	2021	2020
Cash	$ 1,009,859	849,899
Certificates of deposit	318,250	312,046
Contributions receivable, net of allowance of $700 in 2021 and $5,700 in 2020	6,270	38,364
Property plant and equipment, net of accumulated depreciation of $15,445 in 2021 and $13,216 in 2020	81,504	83,733
Total assets	$ 1,415,883	1,284,042
Liabilities and Net Assets		
Accounts payable	$ 2,795	15,850
Contributions payable to St. Luke Hospital and Living Center	650,069	10,600
Total liabilities	652,864	26,450
Net assets:		
Net assets without donor restrictions	763,019	745,825
Net assets with donor restrictions	-	511,767
Total net assets	763,019	1,257,592
	$ 1,415,883	1,284,042

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, 2021 and 2020

	2021	2020
Unrestricted revenues, gains and other support:		
Contributions	$ 32,089	53,852
Thrift Shoppe income	110,728	86,885
Interest income	7,973	8,032
Net assets released from restriction for the Hospital building project	667,694	-
Total revenues, gains and other support	818,484	148,769
Unrestricted expenses:		
Support to St. Luke Hospital and Living Center	730,581	39,650
Administration	41,880	36,519
Fundraising	966	3,993
Thrift Shoppe expenses	27,863	28,062
Total expenses	801,290	108,224
Increase in net assets without donor restrictions	17,194	40,545
Net assets with donor restrictions:		
Grants and contributions	150,799	137,262
Provision for uncollectible pledges	5,128	4,663
Net assets released from restriction for the Hospital projects	(667,694)	-
Increase (decrease) in net assets with donor restrictions	(511,767)	141,925
Increase (decrease) in net assets	(494,573)	182,470
Net assets, beginning of year	1,257,592	1,075,122
Net assets, end of year	$ 763,019	1,257,592

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, 2021 and 2020, cash equivalents consisted primarily of money market accounts.

Property taxes

The Hospital received approximately 4.6% and 5.9% of its financial support from property taxes for the years ended September 30, 2021 and 2020, respectively. One hundred percent of these funds were used to support operations in both years.

(Continued)

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.

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)

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:

	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.

(Continued)

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 $36,353 and $21,089 for the years ended September 30, 2021 and 2020, 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, 2021 and 2020, the Foundation provided $730,581 and $39,650, respectively, of support to the Hospital.

(Continued)

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 (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, 2019.

  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. On March 27, 2020, the CARES Act temporarily exempted Medicare from the effects of sequestration. This exemption is in effect from May 1, 2020 through March 31, 2022.

- **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.

(Continued)

Services rendered to long-term care facility residents are reimbursed under a cost-based prospective reimbursement methodology. Rates are adjusted on July 1 and January 1 using previously filed annual cost reports and changes in the Medicaid resident case mix. The Medicaid cost reports are subject to audit by the State of Kansas and adjustments to rates can be made retroactively.

Approximately 61% and 59% of net patient and resident service revenues for the years ended September 30, 2021 and 2020, 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 $145,000 and $225,000 for the years ended September 30, 2021 and 2020, 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:

	2021	2020
Net patient and resident service revenue:		
Gross patient and resident service revenue:		
Medicare	$ 12,274,360	11,524,879
Medicaid	2,221,908	1,851,310
Commercial insurance and other	8,058,283	6,688,107
Uninsured/self-pay	1,160,753	1,369,280
Charity care deductions	(59,596)	(36,118)
Gross patient and resident service revenue (after charity care)	23,655,708	21,397,458
Contractual adjustments:		
Medicare	4,864,978	5,232,045
Medicaid	609,724	514,613
Commercial insurance and other	3,459,062	2,682,420
Total contractual adjustments	8,933,764	8,429,078
Net patient and resident service revenue	14,721,944	12,968,380
Provision for bad debts	(473,735)	(340,084)
Net patient and resident service revenue, less provision for bad debts	$ 14,248,209	12,628,296

(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 $143,928 and $3,909,076 during the years ended September 30, 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 $3,124,934 as grants - provider relief funds and capital grants - provider relief funds for the year ended September 30, 2021. 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 $144,896 and $203,034 for the years ended September 30, 2021 and 2020, respectively, from the State of Kansas and other sources related to COVID-19. The Hospital recognized $164,895 and $115,860 as noncapital grants and contributions for years ended September 30, 2021 and 2020, respectively. The unrecognized portion of the grant funds are included in advanced grants and will be recognized upon meeting the terms and conditions specific to these grants.

(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, 2021 and 2020, the Hospital's bank balances were exposed to custodial credit risk as follows:

	2021	2020
Bank balances:		
Insured and collateralized	$ 13,721,008	14,891,025
Petty cash and outstanding items	(66,599)	(80,188)
	$ 13,654,409	14,810,837

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, 2021 and 2020, the Hospital had the following investments and maturities:

		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	-

		2020			
		Maturities in Years			
Type	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. agencies obligations	$ 478,378	322,527	155,850	-	-

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, 2021 and 2020, 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, 2021 and 2020, 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:

	2021	2020
Carrying value:		
Deposits	$ 13,654,109	14,810,537
Petty cash	300	300
Investments	346,139	478,378
	$ 14,000,548	15,289,215

Included in the following statements of financial position captions:

	2021	2020
Cash and cash equivalents	$ 12,073,123	13,298,235
Other interest bearing deposits	1,278,079	1,270,706
Restricted cash - held under bond indenture	303,207	241,896
Held under bond indenture for debt service	346,139	478,378
	$ 14,000,548	15,289,215

(Continued)

Investment income

All investment income for the years ended September 30, 2021 and 2020 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, 2021 and 2020 consisted of the following:

	2021	2020
Receivable from:		
Patients and residents	$ 830,046	713,717
Patients and residents' insurance carriers	1,211,912	747,303
Medicare	1,200,320	1,314,822
Medicaid	209,166	255,338
Total patient and resident accounts receivable	3,451,444	3,031,180
Allowances for:		
Contractual adjustments	1,139,701	896,100
Uncollectible accounts	604,050	471,100
Total allowances	1,743,751	1,367,200
Net patient and resident accounts receivable	$ 1,707,693	1,663,980

(Continued)

(6) Capital Assets

Capital asset additions, transfers/retirements, and balances for the years ended September 30, 2021 and 2020 were as follows:

	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

(Continued)

	2019	Additions	Transfers/ Retirements	2020
Historical costs				
Land (not being depreciated)	$ 28,253	-	-	28,253
Land improvements	80,527	-	-	80,527
Buildings and improvements	9,962,399	21,876	-	9,984,275
Fixed equipment	701,978	-	-	701,978
Major moveable equipment	3,627,810	329,715	(424,452)	3,533,073
Total historical costs	14,400,967	351,591	(424,452)	14,328,106
Less accumulated depreciation				
Land improvements	(59,489)	(3,474)	-	(62,963)
Buildings and improvements	(4,757,302)	(461,213)	-	(5,218,515)
Fixed equipment	(554,005)	(30,911)	-	(584,916)
Major moveable equipment	(3,307,753)	(156,279)	424,452	(3,039,580)
Total accumulated depreciation	(8,678,549)	(651,877)	424,452	(8,905,974)
Net capital assets	$ 5,722,418	(300,286)	-	5,422,132

(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 2021 is summarized as follows:

Balance, beginning of year	$ 108,481
Current year claims incurred and changes in estimates for claims incurred in prior years	645,494
Claims and expenses paid	(708,450)
Balance, end of year (accrued expenses)	$ 45,525

(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, 2021 and 2020 is as follows:

	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)	-	-
Capital lease obligations	91,966	-	(44,536)	47,430	47,430
Total long-term debt	5,181,966	5,005,000	(5,134,536)	5,052,430	247,430
Less current installments	169,536			247,430	
Long-term debt, excluding current installments	$ 5,012,430			4,805,000	

	2019	Additions	Reductions	2020	Current Portion
Long-term debt					
2010 revenue bonds:					
Series A	$ 3,810,000	-	(120,000)	3,690,000	125,000
Series B	1,400,000	-	-	1,400,000	-
Capital lease obligations	139,535	-	(47,569)	91,966	44,536
Total long-term debt	5,349,535	-	(167,569)	5,181,966	169,536
Less current installments	167,569			169,536	
Long-term debt, excluding current installments	$ 5,181,966			5,012,430	

(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, 2021 and 2020, the Hospital's historical debt-service coverage ratio was 15.6 and 3.9, respectively.

The debt service requirements as of September 30, 2021 are as follows:

Year ending September 30,	Principal	Interest
2022	$ 200,000	144,750
2023	200,000	143,000
2024	205,000	140,719
2025	205,000	137,900
2026	210,000	134,525
2027-2031	1,125,000	598,568
2032-2037	1,305,000	408,900
2038-2041	1,555,000	149,906
Total	$ 5,005,000	1,858,268

(Continued)

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, 2021 and 2020 totaled $51,237 and $91,488, respectively, net of accumulated depreciation of $164,356 and $124,105, 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, 2021:

Year Ending September 30,	
2021 payments due	$ 49,067
Less amount representing interest	1,637
Present value of future minimum lease payments	$ 47,430

(10) 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.

(Continued)

(11) 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 3.69% and 0.98% for 2021 and 3.88% and 0.86% for 2020, respectively. Contributions actually made by plan members and the Hospital were $229,146 and $60,632, respectively, during 2021, and $224,431 and $49,858, respectively, during 2020.

(12) 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 $1,410,593 and $762,994 for the years ended September 30, 2021 and 2020, 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 $644,173 and $296,946 for the years ended September 30, 2021 and 2020, 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)

(13) 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, 2021 and 2020:

	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, 2021 investments by fair value level U.S. agencies obligations	$ 346,139	346,139	-	-
September 30, 2020 investments by fair value level U.S. agencies obligations	$ 478,378	478,378	-	-

(Continued)

(14) 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:

	2021	2020
Due within one year	$ 6,970	35,777
Due within years two through five	-	8,287
	6,970	44,064
Less allowance for uncollectible contributions	700	5,700
	$ 6,270	38,364

The contributions receivable are all restricted for a Building Project to renovate the building space in the living center, completed during fiscal year 2019.

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, 2021, there were no net assets with restrictions on them. At September 30, 2020, the Foundation's net assets with donor restrictions were for the Hospital's parking lot and building project. These amounts are included in contributions payable to St. Luke Hospital and Living Center at September 30, 2021.

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)

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, 2021 and 2020:

	2021	2020
Cash	$ 1,009,859	849,899
Certificates of deposit	318,250	312,046
Subtotal	1,328,109	1,161,945
Less net assets with donor restrictions	-	(511,767)
Financial assets available within one year	$ 1,328,109	650,178

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, 2020

	Actual	Tax Budget	Actual Over (Under) Budget
Net patient and resident service revenue	$ 12,497,878	11,147,266	1,350,612
Other revenue	1,164,884	722,068	442,816
Total operating revenue	13,662,762	11,869,334	1,793,428
Total operating expenses	13,490,014	16,381,950	(2,891,936)
Interest paid	416,960	417,622	(662)
Operating expenses	13,906,974	16,799,572	(2,892,598)
Operating income (loss)	(244,212)	(4,930,238)	4,686,026
Property tax revenue	880,235	854,691	25,544
Other nonoperating revenues	5,565,935	281,000	5,284,935
Total nonoperating revenues	6,446,170	1,135,691	5,310,479
Excess (deficiency) of revenues over expenses	$ 6,201,958	(3,794,547)	9,996,505

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

Schedule of Expenditures of Federal Awards

Year Ended September 30, 2021

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing/Federal CFDA Number	Pass Through Entity Identifying Number	Total Federal Expenditures
United States Department of Health and Human Services:			
Direct Award:			
COVID-19 Provider Relief Fund	93.498	N/A	$ 3,474,934
COVID-19 HRSA Uninsured Program	93.461	N/A	15,335
			3,490,269
Passed Through the State of Kansas Department of Health and Environment:			
COVID-19 Coronavirus Small Rural Hospital Improvement Program	93.301	N/A	83,613
Total United States Department of Health and Human Services			3,573,882
United States Department of Treasury:			
Passed Through the State of Kansas Department for Aging and Disability Services:			
COVID-19 Coronavirus Relief Fund	21.019	N/A	67,175
Total Expenditures of Federal Awards			$ 3,641,057

* * * * * *

(Continued)

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

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2021

A. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal awards activity of the St. Luke Hospital and Living Center (the Hospital) under programs of the federal government for the year ended September 30, 2021. The accompanying schedule presents total expenditures in accordance with Title 2 U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, the amounts presented in this schedule may differ from the amounts presented in, or used in, the preparation of the basic financial statements.

B. Summary of Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal activity of the Hospital under programs of the federal government for the year ended September 30, 2021 and is presented on the accrued basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance.

C. Provider Relief Fund Reporting

Provider relief funds (PRF) are to be reported during four separate time periods. Period 1 reporting encompassed all PRF received from April 10, 2020 through June 30, 2020 with a measurement date for use of funds through June 30, 2021. Period 2 reporting includes all PRF received from July 1, 2020 through December 31, 2020 with a measurement date for use of funds through December 31, 2021. Period 3 reporting includes all PRF received from January 1, 2021 through June 30, 2021 with a measurement date for use of funds through June 30, 2022. Period 4 reporting includes all PRF received from July 1, 2021 to December 31, 2021 with a measurement date for use of funds through December 31, 2022. Period 5 reporting includes all PRF received from January 1, 2022 to June 30, 2022 with a measurement date for use of funds through June 30, 2023. Accordingly, the amounts included on the accompanying schedule of expenditures of federal awards are for PRF subject to Period 1 reporting.

(Continued)

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

Notes to Schedule of Expenditures of Federal Awards

Year Ended September 30, 2021

As previously noted, the PRF reporting timeline for Period 1 use of funds runs from April 10, 2020 through June 30, 2021. This has resulted in the Hospital's recognition and reporting for financial statement purposes not matching with the PRF reporting timeline. A reconciliation of total expenditures of PRF awards to amounts recognized in the Hospital's financial statements is as follows:

Total PRF amounts included in the Expenditures of Federal Awards	$ 3,474,934
Amounts reflected in the audited financial statements, in the statements of revenues, expenses and changes in net position:	
Grants - provider relief funds FY2021	$ 2,376,890
Capital Grants - provider relief funds FY2021	748,044
Accounting reserve	350,000
	$ 3,474,934

D. Indirect Cost Rate

The Hospital has not elected to use the 10% de minimus indirect cost rate as allowed under the Uniform Guidance.

DA&E DOHMAN, AKERLUND & EDDY, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Kurt J. Moural, CPA
Thomas L. Stevenson, CPA
Daniel E. Vinkenberg, CPA
Sonja A. Cattau, CPA
Troy E. Knust, CPA
Tim J. Coufal, CPA
Casey J. Moscrip, CPA

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

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

We have audited, in accordance with auditing standards generally accepted in the United States of America, the Kansas Municipal Audit and Accounting Guide and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center (the Hospital) as of September 30, 2021 and the related notes to the financial statements which collectively comprise St. Luke Hospital and Living Center's basic financial statements, and have issued our report thereon dated March 2, 2023.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Hospital's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control that we consider to be a significant deficiency. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as item 2021-001 to be a significant deficiency.

(Continued)

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audits, and accordingly, we do not express such an opinion.

The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Governmental Auditing Standards*.

Hospital's Responses to Findings

The Hospital's responses to the findings identified in our audits are described in the accompanying schedule of findings and questioned costs. The Hospital's responses were not subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on them.

Other Reporting and Operating Comments

The following comment is directed not to deficiencies in internal control, but to our observations of Hospital's operations and the financial reporting system in general:

NEW ACCOUNTING STANDARDS

The following new accounting standards will become effective soon and may impact how the Hospital reports certain transactions. We recommend the Hospital be aware of the reporting periods the standards will become applicable for and begin the evaluation process to determine the impact it may have on the Hospital's financial reporting methodologies. Please contact us if you have any questions regarding the standards or require assistance with your review of them.

Lease Agreements - Governmental Entities

In June 2017, the GASB issued Statement No. 87. This new statement requires a lessee to recognize a lease liability and a lease asset at the commencement of the lease term, unless the lease is a short-term lease or it transfers ownership of the underlying asset. The lease liability should be measured at the present value of payments expected to be made during the lease term. The new standard, originally effective for fiscal years beginning after December 15, 2019, has been extended and is now effective for fiscal years beginning after June 15, 2021. Leases should be recognized and measured using the facts and circumstances that exist at the beginning of the period of implementation (or, if applied to earlier periods, the beginning of the earliest period restated). However, lessors should not restate the assets underlying their existing sales-type or direct financing leases. Any residual assets for those leases become the carrying values of the underlying assets.

(Continued)

Construction Interest - Governmental Entities

In June 2018, the GASB issued Statement No. 89. This new statement requires interest cost incurred before the end of a construction period should be recognized as an expense in the period in which the cost is incurred. Such interest costs will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund. The new standard is effective for fiscal years beginning after December 15, 2020.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the organization's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Dohman, Akerlund & Eddy, LLC

Aurora, Nebraska
March 2, 2023

DA&E DOHMAN, AKERLUND & EDDY, LLC
CERTIFIED PUBLIC ACCOUNTANTS

Kurt J. Moural, CPA
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Independent Auditor's Report on Compliance for Each Major Federal Program
and Report on Internal Control Over Compliance Required by the Uniform Guidance

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

Report on Compliance for Each Major Federal Program

We have audited Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center's (the Hospital) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended September 30, 2021. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations and the terms and conditions of its federal awards applicable to federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the Hospital's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Hospital's compliance.

(Continued)

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Opinion on Each Major Federal Program

In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to on the previous page that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2021.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings as questioned costs as item 2021-002. Our opinion on each major federal program is not modified with respect to these matters.

The Hospital's responses to the findings identified in our audits are described in the accompanying schedule of findings and questioned costs. The Hospital is also responsible for preparing a corrective action plan. The Hospital's responses and corrective action plan were not subjected to the auditing procedures applied in the audits of the financial statements and, accordingly, we express no opinion on them.

Report on Internal Control Over Compliance

Management of the Hospital is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to on the previous page. In planning and performing our audit of compliance, we considered the Hospital's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Hospital's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

(Continued)

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dohman, Akerlund & Eddy, LLC

Aurora, Nebraska
March 2, 2023

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

Schedule of Findings and Questioned Costs

Year Ended September 30, 2021

SECTION I - SUMMARY OF AUDITOR'S RESULTS

Financial Statements

Type of auditor's report issued on whether the financial statements were prepared in accordance with U.S. GAAP:	Unmodified opinion
Internal control over financial reporting:	
Material weakness(es) identified?	___ Yes _X_ No
Significant deficiency(ies) identified?	_X_ Yes ___ None reported
Noncompliance material to financial statements noted?	_X_ Yes ___ No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	___ Yes _X_ No
Significant deficiency(ies) identified?	___ Yes _X_ None reported
Type of auditor's report issued on compliance for major programs:	Unmodified opinion
Any audit findings disclosed that are required to be reported in accordance with 2 CFR section 200.516(a)?	_X_ Yes ___ No

Identification of major programs:

Program Name	CFDA
COVID-19 Provider Relief Fund	93.498

Dollar threshold used to distinguish between type A and type B programs:	$750,000
Auditee qualified as low-risk auditee?	___ Yes _X_ No

(Continued)

SECTION II - FINANCIAL STATEMENT FINDINGS

FINDING 2021-001 SEGREGATION OF DUTIES

Criteria

Appropriate segregation of duties to ensure that errors or irregularities are prevented or detected in a timely manner by employees during the normal course of business.

Conditions

Not all major accounting areas have complete segregation of duties.

Cause

The Hospital has limited personnel available to completely segregate all duties.

Effect and recommendation

Lack of complete segregation of duties creates a higher risk of errors or irregularities not being prevented or detected in a timely manner. We suggest the Hospital continue to monitor and review key internal control areas where cost effective process changes can be implemented to lower overall risks of errors and irregularities occurring.

Specific area and comments

Purchasing/inventory controls

During our inquiries into the Hospital's purchasing/inventory controls, we noted the following segregation issues:

- Personnel who are responsible for receipt, storage, and issuance of goods are not independent of responsibility for purchases, sales, and inventory records. Ideally, these functions would be performed by separate individuals.
- Inventory counts are not performed by someone independent of the actual inventory control process for some departments. Ideally, these functions would be performed by separate individuals.

Views of responsible officials and planned corrective actions

Due to a limited number of staff, complete segregation of duties for these areas is difficult to achieve. We will continue to monitor and review key internal control areas to determine if there are cost effective process changes that can be implemented to lower overall risks of errors and irregularities occurring. We have added additional FTEs in purchasing to attempt to reduce general risk.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING 2021-002 PROVIDER RELIEF FUND GENERAL AND TARGETED DISTRIBUTION EXPENSE REPORTING

Program

93.498 COVID-19 Provider Relief Fund

(Continued)

Criteria/Condition

The federal program requires the reporting entity to correctly report allowable expenses by quarter in the reporting form completed for allowable expenditures through June 30, 2021.

Cause

The Hospital inadvertently miscalculated some of the costs that were included in the applicable reporting period resulting in the final total amount of cost being over reported.

Effect

The final amount of allowable Provider Relief Fund costs were overstated in reporting for the period ending June 30, 2021.

Questioned costs

Total questioned cost were $279,443.

Context/Perspective

Our audit procedures determined the Hospital's workbook used to accumulate the costs reported under the Provider Relief Fund inadvertently included certain costs more than once. The error occurred due to the Hospital reporting certain amounts paid on a quarterly basis (prepaid) as the expense for each month versus the amounts being allocated correctly over applicable service period covered. This appears to be an isolated instance involving only certain prepaid costs.

Recommendation

We suggest the Hospital contact HRSA to determine the appropriate steps to correct the reporting error.

Views of responsible officials and planned corrective actions

We agree with the above noted finding. Even though we worked with consultants to help lower the risk of errors in reporting, this error did occur. We will work with HRSA to determine the appropriate steps to correct the noted error. We also have identified additional lost revenue during the reporting period that we believe can be used to offset the $279,443 of questioned costs. We plan on updating our lost revenue reporting during the period 4 reporting period.

St. Luke Hospital
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St. Luke Living Center
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St. Luke
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St. Luke Medical Clinic
537 S. Freeborn • Marion, KS 66861
(620) 382-2033

Marion County Home Care
535 S. Freeborn • Marion, KS 66861
(620) 382-3690

March 2, 2023

CORRECTIVE ACTION PLAN

Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center's (the Hospital) respectfully submits the following corrective action plan for the year ended September 30, 2021.

Name and address of the Independent accounting firm:
Dohman, Akerlund, & Eddy, LLC
PO Box 470
Aurora, NE 68818

Audit period: As of and for the year ended September 30, 2021

The findings from the 2021 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

Section II – Financial Audit Statement Findings

FINDING 2021-001 SEGREGATION OF DUTIES – SIGNIFICANT DEFICIENCY

Effect and recommendation

The auditors noted the Hospital does not have complete segregation of duties related to our purchasing and inventory departments. They suggested we continue to review these areas and determine if there are potential control procedures that could be implemented to improve internal controls.

Views of responsible officials and planned corrective actions

Due to a limited number of staff complete segregation of duties for these areas is difficult to achieve. We will continue to monitor and review key internal control areas to determine if there are cost effective process changes that can be implemented to lower overall risks of errors and irregularities occurring. We have added additional FTE's in purchasing to attempt to reduce general risk.

Anticipated completion date

Ongoing

Section III –Federal Award Findings and Questioned Costs

FINDING 2021-002

Effect and recommendation

We inadvertently included certain costs more than once due to an input error made in entering certain costs that we pay on a quarterly basis versus monthly into our excel workbook used to accumulate our PRF reporting amounts. This resulted in reporting $279,443 in costs that should not have been included.

Views of responsible officials and planned corrective actions

We agree with the above noted finding and will work with HRSA to determine the appropriate steps to correct the noted error. We have identified additional lost revenue during the reporting period that we believe can be used to offset the $279,443 of questioned costs. We plan on updating our lost revenue reporting during the period 4 reporting period.

Anticipated completion date

March 31, 2023

For any questions regarding this plan, please call Bev Reid at (620) 382-2177, ext. 197.

Sincerely,
St. Luke Hospital and Living Center

Bev Reid

Bev Reid
Chief Financial Officer