

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

Financial Statements

Years Ended September 30, 2018 and 2017

(Together With Independent Auditor's Report)

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

Index

Years Ended September 30, 2018 and 2017

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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, 2018 and 2017, and the related notes to the financial statements which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

(Continued)

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center as of September 30, 2018 and 2017 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, 2018 and 2017 and changes in its net assets for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquires of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Supplementary Information*

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

*Dohman, Akerlund & Eddy, LLC*

Aurora, Nebraska  
January 22, 2019

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, 2018 and 2017

***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, 2018 and 2017. It should be read in conjunction with the accompanying financial statements of the Hospital.

***Financial Highlights***

- Cash and cash equivalents and other interest-bearing deposits increased by \$932,274 or 16% and \$458,660 or 9% in 2018 and 2017, respectively.
- The Hospital's net position increased by \$996,613 or 14% and \$280,266 or 4% in 2018 and 2017, respectively.
- The Hospital recorded operating income of \$272,049 and an operating loss of \$406,601 in 2018 and 2017, respectively. This was an improvement in operating results of \$678,650 as compared to fiscal year 2017. The fiscal year 2017 operating loss was an increase of \$273,558 over the fiscal year 2016 operating loss reported.

***Using This Annual Report***

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

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

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

(Continued)

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

Management's Discussion and Analysis

September 30, 2018 and 2017

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 \$996,613 or 14% in 2018 over 2017, and increased by \$280,266 or 4% in 2017 over 2016, as shown in Table 1.

(Continued)

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

Management's Discussion and Analysis

September 30, 2018 and 2017

**Table 1: Assets, Liabilities and Net Position**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Assets</b>			
Cash and cash equivalents	\$ 5,420,645	4,503,745	5,270,373
Other interest-bearing deposits	1,240,662	1,225,288	-
Restricted cash – held under bond indenture	683,162	684,755	684,258
Patient accounts receivable, net	1,370,387	1,121,909	1,589,289
Estimated amounts due from third-party payers	-	16,000	-
Other current assets	480,590	367,322	454,155
Receivable from the Foundation	26,303	100,000	-
Capital assets, net	5,615,371	5,592,636	5,582,616
Other assets	<u>26,520</u>	<u>29,521</u>	<u>-</u>
Total assets	<u>\$ 14,863,640</u>	<u>13,641,176</u>	<u>13,580,691</u>
<b>Liabilities</b>			
Long-term debt, including current portion	\$ 5,547,753	5,694,242	5,629,014
Accounts payable	306,912	232,083	294,367
Accrued expenses – salaries, wages and benefits	661,936	594,950	564,384
Accrued interest payable	142,375	144,850	147,141
Estimated amounts due to third-party payers	<u>233,000</u>	<u>-</u>	<u>251,000</u>
Total liabilities	<u>\$ 6,891,976</u>	<u>6,666,125</u>	<u>6,885,906</u>
<b>Net Position</b>			
Net investment in capital assets	\$ 67,618	(101,606)	(46,398)
Restricted expendable for debt service	683,162	684,755	684,258
Restricted for capital assets	26,303	100,000	-
Unrestricted	<u>7,194,581</u>	<u>6,291,902</u>	<u>6,056,925</u>
Total net position	<u>\$ 7,971,664</u>	<u>6,975,051</u>	<u>6,694,785</u>
Total liabilities and net position	<u>\$ 14,863,640</u>	<u>13,641,176</u>	<u>13,580,691</u>

Significant changes in the Hospital's assets in 2018 include an increase in cash and patient accounts receivable, net. Part of the increase in cash at year-end is related to being overpaid by Medicare during the year.

**Operating Results and Changes in the Hospital's Net Position**

In 2018, the Hospital's net position increased by \$996,613 or 14%, as shown in Table 2. This increase is made up of several different components. The Hospital's net position increased by \$280,266 or 4%, in 2017.

(Continued)

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

Management's Discussion and Analysis

September 30, 2018 and 2017

**Table 2: Operating Results and Changes in Net Position**

	<u>2018</u>	<u>2017</u>	<u>2016</u>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 10,841,427	10,066,993	9,400,577
Other operating revenues	<u>874,668</u>	<u>793,933</u>	<u>521,378</u>
Total operating revenues	<u>11,716,095</u>	<u>10,860,926</u>	<u>9,921,955</u>
<b>Operating Expenses</b>			
Salaries and wages and employee benefits	4,967,951	5,015,221	4,818,989
Employee benefits	971,039	1,005,524	879,417
Supplies and other operating expenses	4,875,179	4,653,840	3,712,412
Depreciation	<u>629,877</u>	<u>592,942</u>	<u>644,180</u>
Total operating expenses	<u>11,444,046</u>	<u>11,267,527</u>	<u>10,054,998</u>
<b>Operating Income (Loss)</b>	<u>272,049</u>	<u>(406,601)</u>	<u>(133,043)</u>
<b>Nonoperating Revenues (Expenses)</b>			
Property taxes	828,710	809,674	764,758
Investment income	110,765	44,927	21,302
Build America Bonds subsidy	111,549	113,418	115,947
Interest expense	(439,218)	(438,218)	(445,901)
Noncapital grants and gifts	49,095	38,767	85,469
Gain on disposition of capital assets	<u>-</u>	<u>5,359</u>	<u>-</u>
Total nonoperating revenues	<u>660,901</u>	<u>573,927</u>	<u>541,575</u>
Excess of revenues over expenses	932,950	167,326	408,532
<b>Capital Grants and Contributions</b>	<u>63,663</u>	<u>112,940</u>	<u>-</u>
<b>Increase in Net Position</b>	<u>\$ 996,613</u>	<u>280,266</u>	<u>408,532</u>

**Operating Income (Loss)**

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

(Continued)



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

Management's Discussion and Analysis

September 30, 2018 and 2017

The operating income for 2018 was an increase of \$678,650 over the operating loss for 2017. The primary components of this change were as follows:

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

The operating loss for 2017 increased by \$273,558 or 206% as compared to 2016. The primary components of this change were as follows:

- An increase of \$666,416 or 7% in net patient service revenue.
- An increase in other operating revenue of \$272,555 or 52%, primarily associated with increased 340B drug program revenue.
- A decrease of \$78,763 or 26% in Living Center net revenue. A large part of this decrease was a result of unpaid resident accounts that were written off.
- A decrease of \$167,093 or 172% in Home Health net profit. Most of this decrease was due to several past due accounts from prior years that were written off. A rise in both direct and in-direct costs accounted for the rest of change.
- An increase of \$224,379 or 125% in contracted physician fees. The increase was primarily related to additional emergency room (ER) physician coverage required during the absence of a St. Luke ER physician.
- An increase of \$126,107 or 14% in employee benefits.

***Nonoperating Revenues and Grants/Contributions***

Nonoperating revenues consist principally of property taxes, grants and gifts. Property tax revenue remained relatively stable. The Hospital receives grants and gifts from various state and federal agencies and individuals. Grants and gifts, both noncapital and capital, received in 2018 totaled \$112,758 as compared to \$151,707 in 2017 and \$85,469 in 2016.

(Continued)

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

Management's Discussion and Analysis

September 30, 2018 and 2017

***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 2018, the Hospital had \$5,615,371 invested in capital assets, net of accumulated depreciation, as detailed in note 5 to the financial statements. The Hospital had capital asset additions totaling \$652,612 in 2018 mostly related to building and other improvements being made to the Living Center as part of an on-going building improvement project. The Hospital incurred capital assets additions of \$602,603 in 2017.

***Debt***

At September 30, 2018, the Hospital had \$5,547,753 in bond and capital lease obligations outstanding, as detailed in note 8 to the financial statements. The Hospital issued bonds in May 2010 to fund the building project that was started in August 2010 and completed in December 2011.

***Contacting the Hospital's Financial Management***

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

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

Statements of Financial Position

September 30, 2018 and 2017

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 5,420,645	4,503,745
Other interest bearing deposits	1,240,662	1,225,288
Restricted cash - held under bond indenture	241,054	237,645
Patient and resident accounts receivable, net of contractual adjustments and estimated uncollectibles of \$1,225,300 in 2018 and \$1,102,347 in 2017	1,370,387	1,121,909
Other receivables	229,341	117,444
Supplies	182,833	152,956
Prepaid expenses	68,416	96,922
Estimated third-party payor settlements	-	16,000
Total current assets	<u>8,753,338</u>	<u>7,471,909</u>
Assets whose use is limited or restricted:		
Held under bond indenture for debt service	442,108	447,110
Receivable from St. Luke Hospital Foundation	26,303	100,000
Total assets whose use is limited or restricted	<u>468,411</u>	<u>547,110</u>
Other receivables	<u>26,520</u>	<u>29,521</u>
Capital assets	13,694,736	13,138,736
Less accumulated depreciation	<u>8,079,365</u>	<u>7,546,100</u>
Net capital assets	<u>5,615,371</u>	<u>5,592,636</u>
	<u>\$ 14,863,640</u>	<u>13,641,176</u>

See accompanying notes to financial statements.

<u>Liabilities and Net Position</u>	<u>2018</u>	<u>2017</u>
Current liabilities:		
Current maturities of long-term debt	\$ 201,093	183,863
Accounts payable	306,912	232,083
Accrued expenses - salaries, wages and benefits	661,936	594,950
Accrued interest payable	142,375	144,850
Estimated third-party payor settlements	233,000	-
Total current liabilities	<u>1,545,316</u>	<u>1,155,746</u>
Long-term debt, excluding current maturities	<u>5,346,660</u>	<u>5,510,379</u>
Total liabilities	<u>6,891,976</u>	<u>6,666,125</u>
Net position:		
Net investment in capital assets	67,618	(101,606)
Restricted -		
Expendable for debt service	683,162	684,755
Expendable for capital assets	26,303	100,000
Unrestricted	<u>7,194,581</u>	<u>6,291,902</u>
Total net position	7,971,664	6,975,051
	<u>\$ 14,863,640</u>	<u>13,641,176</u>

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

Statements of Revenues, Expenses and Changes in Net Position

Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating revenues:		
Net patient and resident service revenue	\$ 11,271,149	10,505,171
Provision for bad debts	<u>(429,722)</u>	<u>(438,178)</u>
Net patient and resident service revenue, less provision for bad debts	10,841,427	10,066,993
Other revenue	<u>874,668</u>	<u>793,933</u>
Total operating revenues	<u>11,716,095</u>	<u>10,860,926</u>
Operating expenses:		
Salaries and wages	4,967,951	5,015,221
Employee benefits	971,039	1,005,524
Supplies and other	4,875,179	4,653,840
Depreciation	<u>629,877</u>	<u>592,942</u>
Total operating expenses	<u>11,444,046</u>	<u>11,267,527</u>
Operating income (loss)	<u>272,049</u>	<u>(406,601)</u>
Nonoperating revenues (expenses):		
Property taxes	828,710	809,674
Investment income	110,765	44,927
Build America Bonds subsidy	111,549	113,418
Interest expense	(439,218)	(438,218)
Noncapital grants and contributions	49,095	38,767
Gain on disposition of capital assets	<u>-</u>	<u>5,359</u>
Total nonoperating revenues and expenses	<u>660,901</u>	<u>573,927</u>
Excess of revenues over expenses	932,950	167,326
Capital grants and contributions	<u>63,663</u>	<u>112,940</u>
Increase in net position	996,613	280,266
Net position, beginning of year	<u>6,975,051</u>	<u>6,694,785</u>
Net position, end of year	<u>\$ 7,971,664</u>	<u>6,975,051</u>

See accompanying notes to financial statements.

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

Statements of Cash Flows

Years Ended September 30, 2018 and 2017

<u>Increase or Decrease in Cash and Cash Equivalents</u>	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Cash received:		
Patients, residents, and third-party payors	\$ 10,841,949	10,267,373
Other revenue	776,340	792,666
Cash paid to and on behalf of employees	(5,872,004)	(5,990,179)
Cash paid to suppliers	<u>(4,811,831)</u>	<u>(4,658,419)</u>
Net cash provided by operating activities	<u>934,454</u>	<u>411,441</u>
Cash flows from noncapital financing activities:		
Property taxes received	828,112	809,541
Noncapital grants and contributions received	<u>49,095</u>	<u>38,767</u>
Net cash provided by noncapital financing activities	<u>877,207</u>	<u>848,308</u>
Cash flows from capital and related financing activities:		
Capital expenditures	(586,312)	(387,150)
Capital grants and gifts received	137,360	12,940
Principal payments on long-term debt	(217,649)	(145,365)
Proceeds from sale of capital assets	-	5,000
Build America Bonds subsidy	112,236	114,206
Interest paid on long-term debt	<u>(441,693)</u>	<u>(440,509)</u>
Net cash used by capital and related financing activities	<u>(996,058)</u>	<u>(840,878)</u>
Cash flows from investing activities:		
Interest income received	115,078	40,286
Investment in other interest bearing deposits	(15,374)	(1,225,288)
Net change in construction escrow and debt-related accounts	<u>5,002</u>	<u>(2,076)</u>
Net cash provided (used) by investing activities	<u>104,706</u>	<u>(1,187,078)</u>
Net increase (decrease) in cash and cash equivalents	920,309	(768,207)
Cash and cash equivalents, beginning of year	<u>4,741,390</u>	<u>5,509,597</u>
Cash and cash equivalents, end of year	<u>\$ 5,661,699</u>	<u>4,741,390</u>
Reconciliation of cash and cash equivalents to the statements of financial position:		
Cash and cash equivalents	\$ 5,420,645	4,503,745
Restricted cash - held under bond indenture	<u>241,054</u>	<u>237,645</u>
	<u>\$ 5,661,699</u>	<u>4,741,390</u>

(Continued)

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

Statements of Cash Flows  
(Continued)  
Years Ended September 30, 2018 and 2017

<u>Reconciliation of Operating Income or Loss to Net Cash Provided by Operating Activities</u>	<u>2018</u>	<u>2017</u>
Operating income (loss)	\$ 272,049	(406,601)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:		
Depreciation	629,877	592,942
Provision for bad debts	429,722	438,178
Decrease (increase) in:		
Patient and resident accounts receivable	(678,200)	29,202
Other receivables	(113,298)	(34,813)
Inventories	(29,877)	10,640
Prepaid expenses	28,506	85,471
Estimated third-party payor settlements	16,000	(16,000)
Increase (decrease) in:		
Accounts payable	79,689	(67,144)
Accrued expenses - salaries, wages and benefits	66,986	30,566
Estimated third-party payor settlements	<u>233,000</u>	<u>(251,000)</u>
Net cash provided by operating activities	<u>\$ 934,454</u>	<u>411,441</u>

Supplemental Disclosures of Cash Flows Information

Capital asset additions acquired with capital lease obligations	\$ <u>71,160</u>	<u>210,593</u>
Capital asset additions included in accounts payable	\$ <u>-</u>	<u>4,860</u>

See accompanying notes to financial statements.

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

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

September 30, 2018 and 2017

<u>Assets</u>	<u>2018</u>	<u>2017</u>
Cash	\$ 1,040,010	950,315
Certificates of deposit	122,060	120,691
Contributions receivable, net of allowance of \$12,900 in 2018 and \$17,000 in 2017	107,892	187,630
Property plant and equipment, net of accumulated depreciation of \$8,757 in 2018 and \$6,528 in 2017	<u>78,192</u>	<u>80,421</u>
Total assets	<u>\$ 1,348,154</u>	<u>1,339,057</u>
 <u>Liabilities and Net Assets</u> 		
Accounts payable	4,558	5,551
Contributions payable to St. Luke Hospital and Living Center	<u>26,303</u>	<u>100,000</u>
Total liabilities	30,861	105,551
 Net assets:		
Unrestricted net assets	581,591	760,381
Temporarily restricted net assets	<u>735,702</u>	<u>473,125</u>
Total net assets	<u>1,317,293</u>	<u>1,233,506</u>
	<u>\$ 1,348,154</u>	<u>1,339,057</u>

See accompanying notes to financial statements.



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

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

Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Unrestricted Revenues, Gains and Other Support:		
Contributions	\$ 23,681	69,050
Thrift Shoppe income	120,770	114,023
Interest income	4,378	2,913
Net assets released from restriction for the Hospital building project	-	100,000
Total revenues, gains and other support	148,829	285,986
Unrestricted Expenses:		
Support to St. Luke Hospital and Living Center	76,929	102,918
Administration	41,199	44,410
Fundraising	27,043	95,608
Thrift Shoppe expenses	31,199	41,037
Scholarships provided	1,250	1,250
Total expenses	177,620	285,223
Increase (decrease) in unrestricted net assets	(28,791)	763
Temporarily Restricted Net Assets:		
Grants and contributions	116,082	596,741
Provision for uncollectible pledges	(3,504)	(23,616)
Net assets released from restriction for the Hospital building project	-	(100,000)
Increase in temporarily restricted net assets	112,578	473,125
Increase in net assets	83,787	473,888
Net assets, beginning of year	1,233,506	759,618
Net assets, end of year	\$ 1,317,293	1,233,506

See accompanying notes to financial statements.

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

Notes to Financial Statements

September 30, 2018 and 2017

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

Nature of operations and reporting entity

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

Basis of accounting and presentation

The financial statements of the Hospital have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place. Operating revenues and expenses include exchange transactions. Property taxes, interest income and interest expense on capital assets-related debt are included in nonoperating revenues and expenses. The Hospital first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2018 and 2017, cash equivalents consisted primarily of money market accounts.

Property taxes

The Hospital received approximately 6.5% and 7.3% of its financial support from property taxes for the years ended September 30, 2018 and 2017, respectively. One hundred percent of these funds were used to support operations in both years.

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

(Continued)

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

Notes to Financial Statements

Risk management

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

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

Investments and investment income

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

Patient and resident accounts receivable

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

Supplies

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

Capital assets

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

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

(Continued)

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

Notes to Financial Statements

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

Net patient service revenue

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

(Continued)

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

Notes to Financial Statements

Charity care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The Hospital estimates the cost associated with providing services under its charity care policy was \$19,757 and \$22,708 for the years ended September 30, 2018 and 2017, respectively. The Hospital computes its estimated charity care costs by applying its overall cost to charge ratio (total operating costs divided by gross patient 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, 2018 and 2017, the Foundation provided \$76,929 and \$102,918, respectively, of support to the Hospital.

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

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

Notes to Financial Statements

(2) Net Patient and Resident Service Revenue

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

- **Medicare:** The Hospital is designated as a Critical Access Hospital (CAH). As a CAH, inpatient acute, inpatient nonacute (swing-bed), and outpatient services provided to Medicare beneficiaries are paid based on a cost reimbursement methodology (plus an additional 1% of cost). The Hospital is reimbursed for these services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare Administrative Contractor. Although the majority of the services provided are reimbursed under the previously described methodology, there are services, such as certain laboratory and diagnostic services, reimbursed under a prospectively determined fee schedule. Additionally, home health services are paid on a per-episode basis using clinical, diagnostic and other factors. The Hospital's classification of patients under the Medicare program and the appropriateness of their admission are subject to an independent review by a peer review organization. The Hospital's Medicare cost reports have been audited by the MAC through September 30, 2016.

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 2023.

- **Medicaid:** Inpatient and outpatient services provided to Medicaid beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage based on prior filed cost reports. That add-on percentage may be rebased at some time in the future. The Hospital is reimbursed at tentative rates with final settlements determined after submission of annual cost reports by the Hospital and reviews thereof by the Kansas Department of Health and Environment.

Services rendered for long-term care facility residents are reimbursed under a cost-based prospective reimbursement methodology. The Hospital is reimbursed at a prospective rate with annual cost reports submitted to the Medicaid program. Beginning July 1, 2018, rates were computed each calendar quarter using an average of the 2015, 2016 and 2017 cost reports and changes in the Medicaid resident case mix. The Medicaid cost reports are subject to audit by the State and adjustments to rates can be made retroactively.

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

Notes to Financial Statements

Approximately 59% and 61% of net patient and resident service revenues for the years ended September 30, 2018 and 2017, respectively, are from combined participation in the Medicare and Medicaid programs. Laws and regulations governing Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term.

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

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

(Continued)

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

Notes to Financial Statements

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

	<u>2018</u>	<u>2017</u>
Net patient and resident service revenue:		
Gross patient and resident service revenue:		
Medicare	\$ 9,486,288	8,165,058
Medicaid	1,508,630	1,673,237
Commercial insurance and other	5,176,857	4,942,659
Uninsured/self-pay	1,395,125	1,254,961
Charity care deductions	<u>(31,838)</u>	<u>(33,918)</u>
Gross patient and resident service revenue (after charity care)	<u>17,535,062</u>	<u>16,001,997</u>
Contractual adjustments:		
Medicare	3,872,508	2,950,896
Medicaid	435,103	494,905
Commercial insurance and other	<u>1,956,302</u>	<u>2,051,025</u>
Total contractual adjustments	<u>6,263,913</u>	<u>5,496,826</u>
Net patient and resident service revenue	11,271,149	10,505,171
Provision for bad debts	<u>(429,722)</u>	<u>(438,178)</u>
Net patient and resident service revenue, less provision for bad debts	<u>\$ 10,841,427</u>	<u>10,066,993</u>

(3) Deposits, Investments, and Investment Income

Deposits

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

(Continued)



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

Notes to Financial Statements

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

At September 30, 2018 and 2017, respectively, \$6,307,851 and \$5,337,773 of the Hospital's bank balance of \$7,057,851 and \$6,087,773 were exposed to custodial credit risk as follows:

	<u>2018</u>	<u>2017</u>
Uninsured and collateral held by pledging financial institution's trust department or agent in other than the Hospital's name	\$ <u>6,307,851</u>	<u>5,337,773</u>

Investments

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

At September 30, 2018 and 2017, the Hospital had the following investments and maturities:

<u>2018</u>					
<u>Maturities in Years</u>					
<u>Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
U.S. agencies obligations	\$ <u>442,108</u>	<u>442,108</u>	<u>-</u>	<u>-</u>	<u>-</u>
<u>2017</u>					
<u>Maturities in Years</u>					
<u>Type</u>	<u>Fair Value</u>	<u>Less than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>More than 10</u>
U.S. agencies obligations	\$ <u>447,110</u>	<u>447,110</u>	<u>-</u>	<u>-</u>	<u>-</u>

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

(Continued)

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

Notes to Financial Statements

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

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the Hospital's policy to limit its investments in corporate bonds to investment grade ratings issued by nationally recognized statistical rating organizations (NRSROs). At September 30, 2018 and 2017, 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, 2018 and 2017, the Hospital had no investment in individual corporate bonds; all investments were in U.S. agencies obligations.

Summary of carrying values

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

	<u>2018</u>	<u>2017</u>
Carrying value:		
Deposits	\$ 6,902,061	5,966,378
Petty cash	300	300
Investments	<u>442,108</u>	<u>447,110</u>
	<u>\$ 7,344,469</u>	<u>6,413,788</u>

Included in the following statements of financial position captions:

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 5,420,645	4,503,745
Other interest bearing deposits	1,240,662	1,225,288
Restricted cash – held under bond indenture	241,054	237,645
Held under bond indenture for debt service	<u>442,108</u>	<u>447,110</u>
	<u>\$ 7,344,469</u>	<u>6,413,788</u>

(Continued)

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

Notes to Financial Statements

Investment income

All investment income for the years ended September 30, 2018 and 2017, consisted of interest income.

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

The Hospital grants credit without collateral to its patients, 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, 2018 and 2017 consisted of the following:

	<u>2018</u>	<u>2017</u>
Receivable from:		
Patients and residents	\$ 663,644	709,946
Patients and residents' insurance carriers	650,407	538,398
Medicare	1,100,162	782,721
Medicaid	<u>181,474</u>	<u>193,191</u>
Total patient and resident accounts receivable	<u>2,595,687</u>	<u>2,224,256</u>
Allowances for:		
Contractual adjustments	769,100	657,000
Uncollectible accounts	<u>456,200</u>	<u>445,347</u>
Total allowances	<u>1,225,300</u>	<u>1,102,347</u>
Net patient and resident accounts receivable	\$ <u>1,370,387</u>	<u>1,121,909</u>

(Continued)

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

Notes to Financial Statements

(5) Capital Assets

Capital asset additions, transfers/retirements, and balances for the years ended September 30, 2018 and 2017 were as follows:

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

(Continued)

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

Notes to Financial Statements

	<u>2016</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>2017</u>
<u>Historical costs</u>				
Land (not being depreciated)	\$ 28,253	-	-	28,253
Land improvements	60,601	-	-	60,601
Buildings and improvements	8,589,088	343,080	(51,852)	8,880,316
Fixed equipment	595,440	18,241	-	613,681
Major moveable equipment	3,607,548	241,282	(307,945)	3,540,885
Construction in progress (not being depreciated)	<u>15,000</u>	<u>-</u>	<u>-</u>	<u>15,000</u>
Total historical costs	<u>12,895,930</u>	<u>602,603</u>	<u>(359,797)</u>	<u>13,138,736</u>
<u>Less accumulated depreciation</u>				
Land improvements	(51,115)	(1,482)	-	(52,597)
Buildings and improvements	(3,537,312)	(403,532)	51,852	(3,888,992)
Fixed equipment	(501,303)	(14,402)	-	(515,705)
Major moveable equipment	<u>(3,223,584)</u>	<u>(173,526)</u>	<u>308,304</u>	<u>(3,088,806)</u>
Total accumulated depreciation	<u>(7,313,314)</u>	<u>(592,942)</u>	<u>360,156</u>	<u>(7,546,100)</u>
Net capital assets	\$ <u>5,582,616</u>	<u>9,661</u>	<u>359</u>	<u>5,592,636</u>

The construction in progress amount at September 30, 2018 relates to architect and other professional costs to-date not placed in service related to renovation of the living center building space (the Building Project). During 2018, the Hospital completed a portion of the planned renovation resulting in approximately \$443,000 of costs being capitalized and placed in service. At September 30, 2018, the Hospital estimates the total remaining cost of the Building Project will be approximately \$600,000 and had contractual commitments associated with the Building Project of \$14,000.

(6) Employee Health Claims

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

(Continued)

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

Notes to Financial Statements

Activity in the Hospital's accrued employee health claims liability during 2018 is summarized as follows:

Balance, beginning of year	\$ 43,000
Current year claims incurred and changes in estimates for claims incurred in prior years	588,357
Claims and expenses paid	<u>(555,181)</u>
	\$ <u>76,176</u>

(7) Medical Malpractice Coverage and Claims

The Hospital purchases medical malpractice insurance under a claims-made policy with a fixed premium which provides \$200,000 of coverage for each medical incident and \$600,000 of aggregate coverage for each policy year. The policy only covers claims made and reported to the insurer during the policy term, regardless of when the incident giving rise to the claim occurred. The Kansas Health Care Stabilization Fund provides an additional \$800,000 of coverage for each medical incident and \$2,400,000 of aggregate coverage for each policy year.

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

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

Notes to Financial Statements

(8) Long-term Debt

A schedule of changes in the Hospital's long-term debt obligations for the years ended September 30, 2018 and 2017 is as follows:

	<u>2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>2018</u>	<u>Current Portion</u>
Long-term debt					
2010 revenue bonds:					
Series A	\$ 4,035,000	-	(110,000)	3,925,000	115,000
Series B	1,400,000	-	-	1,400,000	-
Capital lease obligations	<u>259,242</u>	<u>71,160</u>	<u>(107,649)</u>	<u>222,753</u>	<u>86,093</u>
Total long-term debt	5,694,242	<u>71,160</u>	<u>(217,649)</u>	5,547,753	<u>201,093</u>
Less current installments	<u>183,863</u>			<u>201,093</u>	
Long-term debt, excluding current installments	\$ <u>5,510,379</u>			<u>5,346,660</u>	
	<u>2016</u>	<u>Additions</u>	<u>Reductions</u>	<u>2017</u>	<u>Current Portion</u>
Long-term debt					
2010 revenue bonds:					
Series A	\$ 4,145,000	-	(110,000)	4,035,000	110,000
Series B	1,400,000	-	-	1,400,000	-
Capital lease obligations	<u>84,014</u>	<u>210,593</u>	<u>(35,365)</u>	<u>259,242</u>	<u>73,863</u>
Total long-term debt	5,629,014	<u>210,593</u>	<u>(145,365)</u>	5,694,242	<u>183,863</u>
Less current installments	<u>145,364</u>			<u>183,863</u>	
Long-term debt, excluding current installments	\$ <u>5,483,650</u>			<u>5,510,379</u>	

2010 Revenue bonds

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

(Continued)

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

Notes to Financial Statements

The indenture agreement requires that certain funds be established. Accordingly, these funds are included as funds held under bond indenture in the statements of financial position. The indenture agreement also requires the Hospital to comply with certain restrictive covenants including minimum insurance coverage, restrictions on incurrence of additional debt and maintaining a historical debt-service coverage ratio of at least 1.15 during construction and at least 1.40 thereafter. For the years ended September 30, 2018 and 2017, the Hospital's historical debt-service coverage ratio was 3.13 and 2.24, respectively.

The debt service requirements as of September 30, 2018, are as follows:

<u>Year ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2019	\$ 115,000	423,100
2020	120,000	414,725
2021	125,000	405,688
2022	130,000	395,800
2023	140,000	385,000
2024-2028	805,000	1,747,462
2029-2033	1,060,000	1,455,063
2034-2038	1,415,000	969,975
2039-2041	<u>1,415,000</u>	<u>226,125</u>
Total	\$ <u>5,325,000</u>	<u>6,422,938</u>

Capital lease obligations

The Hospital is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at September 30, 2018 and 2017, totaled \$308,066 and \$297,290, respectively, net of accumulated depreciation of \$297,629 and \$237,245, respectively. The following is a schedule by year of future minimum lease payments under the capital leases including interest at rates ranging from 2.68% to 6.41% together with the present value of the future minimum lease payments as of September 30, 2018:

<u>Year Ending September 30,</u>	
2019	\$ 95,962
2020	51,942
2021	49,067
2022	<u>49,067</u>
	246,038
Less amount representing interest	<u>23,285</u>
Present value of future minimum lease payments	\$ <u>222,753</u>

(Continued)



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

(9) Pension Plans

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Hospital. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 4.55% and 1.04% for 2018 and 4.03% and 0.96% for 2017, respectively. Contributions actually made by plan members and the Hospital aggregated \$225,887 and \$51,815, respectively, during 2018, and \$202,111 and \$47,993, respectively, during 2017.

(10) 340B Drug Pricing Program

The Hospital began participating in the 340B Drug Pricing Program (340B Program) during 2016, enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues of \$701,463 and \$642,747 for the years ended September 30, 2018 and 2017, respectively, which is included in other operating revenue in the accompanying statements of revenues, expenses and changes in net position. The Hospital recorded expenses of \$295,497 and \$356,549 for the years ended September 30, 2018 and 2017, respectively, which is included in supplies and other in the accompanying statements of revenues, expenses and changes in net position. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

(Continued)

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

(11) Disclosures About Fair Value of Assets and Liabilities

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

- Level 1 Quoted prices in active markets for identical assets or liabilities
- Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Recurring measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2018 and 2017:

	<u>Fair Value</u>	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
September 30, 2018				
Investments by fair value level				
U.S. agencies obligations	\$ <u>442,108</u>	<u>442,108</u>	<u>-</u>	<u>-</u>
September 30, 2017				
Investments by fair value level				
U.S. agencies obligations	\$ <u>447,110</u>	<u>447,110</u>	<u>-</u>	<u>-</u>

(Continued)

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

Notes to Financial Statements

(12) St. Luke Hospital Foundation

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 requires the Foundation to distinguish between contributions that increase permanently restricted net assets, temporarily restricted net assets and unrestricted net assets. It also requires recognition of contributions, including contributed services meeting certain criteria, at fair values. The FASB ASC establishes standards for external financial statements of not-for-profit organizations and requires a statement of financial position, a statement of activities and a statement of cash flows. As permitted by Governmental Accounting Standards Board (GASB) Statement No. 34, the Hospital has elected not to present a statement of cash flows for the Foundation in the basic financial statements of the Hospital's reporting entity.

Contributions receivable

Contributions receivable consisted of the following:

	<u>Unrestricted</u>	
	<u>2018</u>	<u>2017</u>
Due within one year	\$ 41,902	83,316
Due within years two through five	<u>78,890</u>	<u>121,314</u>
	120,792	204,630
Less allowance for uncollectible contributions	<u>12,900</u>	<u>17,000</u>
	<u>\$ 107,892</u>	<u>187,630</u>

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

Temporarily restricted net assets

The Foundation's temporarily restricted net assets at September 30, 2018 and September 30, 2017 are all restricted for the Building Project as described in note 5.

MARION COUNTY HOSPITAL DISTRICT #1 OF MARION COUNTY, KANSAS  
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Comparison of Revenues and Expenses (Cash Basis) - Actual and Tax Budget  
Calendar Year Ended December 31, 2017

	<u>Actual</u>	<u>Tax Budget</u>	<u>Actual Over (Under) Budget</u>
Net patient service revenue	\$ 9,776,082	9,145,000	631,082
Other revenue	<u>933,004</u>	<u>235,500</u>	<u>697,504</u>
Total operating revenue	10,709,086	9,380,500	1,328,586
Operating expenses	11,250,767	13,800,527	(2,549,760)
Interest paid	<u>438,730</u>	<u>-</u>	<u>438,730</u>
Operating expenses	<u>11,689,497</u>	<u>13,800,527</u>	<u>(2,111,030)</u>
Operating loss	<u>(980,411)</u>	<u>(4,420,027)</u>	<u>3,439,616</u>
Property tax revenue	819,541	809,183	10,358
Other nonoperating revenues	<u>198,402</u>	<u>143,577</u>	<u>54,825</u>
Total nonoperating revenues	<u>1,017,943</u>	<u>952,760</u>	<u>65,183</u>
Excess (deficiency) of revenue over expenses	\$ <u><u>37,532</u></u>	<u><u>(3,467,267)</u></u>	<u><u>3,504,799</u></u>

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

September 30, 2018

	<u>Coverage Limits</u>
<b>CHUBB</b>	
Expiring October 1, 2018	
Building and contents	\$ 22,277,000
Electronic data processing equipment	Including in building and contents
Business income with extra expense	6,346,771
Flood	500,000
Earthquake	5,000,000
<b>Cincinnati Insurance Company</b>	
Expiring October 1, 2018	
Directors and officers with employment practices	2,000,000
Expiring October 28, 2018	
Employee theft	500,000
Forgery and alteration	500,000
Expiring October 28, 2018	
Commercial automobile	1,000,000
<b>KHA Workers' Compensation Fund, Inc.</b>	
Expiring January 1, 2019	
Workers' compensation:	
Per accident	500,000
Per employee disease	500,000
Policy limit	500,000
<b>Kansas Medical Mutual Insurance Company</b>	
Expiring October 15, 2018	
Professional liability	200,000/600,000
Kansas Healthcare Stabilization Fund	800,000/2,400,000
General liability	1,000,000/3,000,000
Fire legal liability	50,000
<b>Old Republic Surety Company</b>	
Expiring January 1, 2018	
Durable medical equipment	50,000