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

Financial Statements

Years Ended September 30, 2023 and 2022

(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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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

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

Report on the Audit of the Financial Statements

Opinions

We have audited the accompanying financial statements of Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center (the Hospital) and its discretely presented component unit, as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center (the Hospital) and of its discretely presented component unit, as of September 30, 2023 and 2022 and the respective changes in financial position, and, where applicable cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the Kansas Municipal Audit and Accounting Guide. Our audits of the financial statements as of and for the year ended September 30, 2023 were also conducted in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

(Continued)

PO Box 470 / Aurora, NE 68818 / 402.694.6404 T / 402.694.6405 F / www.daecpa.com

Emphasis of Matter

As discussed in note 16 to the financial statements, during the year ended September 30, 2023, Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center adopted Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs*)*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center's internal control. Accordingly, no such opinion is expressed.

(Continued)

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgement, there are conditions or events, considered in the aggregate, that raise substantial doubt about Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center has omitted its management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by GASB who consider it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center's basic financial statements. The accompanying supplementary data included in Schedule 1 and the Schedule of Expenditures of Federal Awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance) (Schedule 2), are presented for purposes of additional analysis and are 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 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, such information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Dohman, Akerlund & Eddy, LLC

Aurora, Nebraska
June 26, 2024

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

Statements of Financial Position

September 30, 2023 and 2022

Assets	2023	2022
Current assets:		
Cash and cash equivalents	$ 16,132,217	15,137,991
Restricted cash - held under bond indenture	222,832	215,869
Patient and resident accounts receivable, net of contractual adjustments and estimated uncollectibles of $1,485,679 in 2023 and $1,598,691 in 2022	1,506,194	1,704,047
Receivable from St. Luke Hospital Foundation	57,272	47,156
Other receivables	109,392	349,443
Supplies	359,518	312,161
Prepaid expenses	141,820	100,141
Estimated third-party payor settlements	945,000	685,000
Total current assets	19,474,245	18,551,808
Assets whose use is limited or restricted, held under bond indenture for debt service	335,267	326,391
Other receivables	12,021	15,021
Capital assets	16,513,208	16,057,428
Less accumulated depreciation	10,576,900	9,751,679
Net capital assets	5,936,308	6,305,749
Subscription assets	99,249	99,249
Less accumulated amortization	41,354	8,271
Net subscription assets	57,895	90,978
	$ 25,815,736	25,289,947

See accompanying notes to financial statements.

Liabilities and Net Position	2023	2022
Current liabilities:		
Current installments of:		
Long-term debt	$ 205,000	200,000
Subscription obligations	33,397	32,090
Accounts payable	651,257	517,892
Accrued expenses - salaries, wages and benefits	719,858	739,790
Accrued interest payable	47,333	48,000
Advanced insurance proceeds	-	4,172
Advanced grants	-	824,530
Estimated third-party payor settlements	35,000	50,000
Total current liabilities	1,691,845	2,416,474
Long-term debt, excluding current maturities	4,400,000	4,605,000
Subscription obligations, excluding current installments	25,937	59,334
Total liabilities	6,117,782	7,080,808
Net position:		
Net investment in capital assets	1,329,869	1,500,303
Restricted - expendable for debt service	558,099	542,260
Unrestricted	17,809,986	16,166,576
Total net position	19,697,954	18,209,139
	$ 25,815,736	25,289,947

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, 2023 and 2022

	2023	2022
Operating revenues:		
Net patient and resident service revenue	$ 14,886,540	15,039,640
Provision for bad debts	(372,514)	(488,656)
Net patient and resident service revenue, less provision for bad debts	14,514,026	14,550,984
Other revenue	1,011,008	1,614,746
Total operating revenues	15,525,034	16,165,730
Operating expenses:		
Salaries and wages	6,982,345	6,423,402
Employee benefits	1,431,106	1,478,526
Supplies and other	7,385,654	7,451,782
Depreciation and amortization	922,740	865,781
Total operating expenses	16,721,845	16,219,491
Operating loss	(1,196,811)	(53,761)
Nonoperating revenues (expenses):		
Property taxes	919,945	887,671
Investment income	693,398	154,077
Interest expense	(145,289)	(146,824)
Grants - provider relief funds	824,530	241,875
Noncapital grants and contributions	117,079	254,692
Total nonoperating revenues	2,409,663	1,391,491
Excess of revenues over expenses	1,212,852	1,337,730
Capital grants and contributions	275,963	80,000
Increase in net position	1,488,815	1,417,730
Net position, beginning of year	18,209,139	16,791,409
Net position, end of year	$ 19,697,954	18,209,139

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, 2023 and 2022

Increase in Cash and Cash Equivalents	2023	2022
Cash flows from operating activities:		
Cash received:		
Patients, residents, and third-party payors	$ 14,436,879	14,300,526
Other revenue	1,257,701	1,544,933
Cash paid to and on behalf of employees	(8,433,383)	(8,010,840)
Cash paid to suppliers	(7,337,384)	(7,352,301)
Net cash provided (used) by operating activities	(76,187)	482,318
Cash flows from noncapital financing activities:		
Property taxes received	916,308	896,129
Noncapital grants and contributions received	106,963	790,430
Grants repaid - provider relief funds	-	(332,281)
Grants received - provider relief funds	-	470,616
Net cash provided by noncapital financing activities	1,023,271	1,824,894
Cash flows from capital and related financing activities:		
Capital expenditures	(514,555)	(416,328)
Capital grants and gifts received	275,963	80,000
Principal payments on long-term debt	(200,000)	(200,000)
Principal payments on subscription obligations	(32,090)	(7,825)
Principal payments on lease obligations	-	(47,430)
Interest paid	(145,956)	(147,324)
Net cash used by capital and related financing activities	(616,638)	(738,907)
Cash flows from investing activities:		
Interest income received	679,619	111,398
Investment in other interest bearing deposits	-	(2,606)
Withdrawals from other interest bearing deposits	-	1,280,685
Net change in construction escrow and debt-related accounts	(8,876)	19,748
Net cash provided by investing activities	670,743	1,409,225
Net increase in cash and cash equivalents	1,001,189	2,977,530
Cash and cash equivalents, beginning of year	15,353,860	12,376,330
Cash and cash equivalents, end of year	$ 16,355,049	15,353,860
Reconciliation of cash and cash equivalents to the statements of financial position:		
Cash and cash equivalents	$ 16,132,217	15,137,991
Restricted cash - held under bond indenture	222,832	215,869
	$ 16,355,049	15,353,860

(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, 2023 and 2022

Reconciliation of Operating Loss to Net Cash Provided or Used by Operating Activities	2023	2022
Operating loss	$ (1,196,811)	(53,761)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	922,740	865,781
Provision for bad debts	372,514	488,656
Decrease (increase) in:		
Patient and resident accounts receivable	(174,661)	(485,010)
Other receivables	260,467	(76,916)
Inventories	(47,357)	(55,160)
Prepaid expenses	(41,679)	(20,322)
Estimated third-party payor settlements	(260,000)	(25,000)
Increase (decrease) in:		
Accounts payable	127,704	177,894
Accrued expenses - salaries, wages and benefits	(19,932)	(108,912)
Advanced insurance proceeds	(4,172)	4,172
Estimated third-party payor settlements	(15,000)	(229,104)
Net cash provided (used) by operating activities	$ (76,187)	482,318

Supplemental Disclosures of Cash Flows Information

Capital asset additions included in accounts payable	$ 22,183	16,522
Subscription asset additions with subscription obligations	$ -	99,249

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, 2023 and 2022

Assets	2023	2022
Cash	$ 328,229	396,927
Certificates of deposit	331,257	324,339
Property plant and equipment, net of accumulated depreciation of $20,769 in 2023 and $17,675 in 2022	133,634	69,274
Total assets	$ 793,120	790,540
Liabilities and Net Assets		
Accounts payable	$ 2,684	6,748
Contributions payable to St. Luke Hospital and Living Center	57,272	47,156
Total liabilities	59,956	53,904
Net assets without donor restrictions	733,164	736,636
	$ 793,120	790,540

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, 2023 and 2022

	2023	2022
Unrestricted revenues, gains and other support:		
Contributions	$ 34,539	34,482
Thrift Shoppe income	126,890	114,463
Interest income	13,054	8,806
Gain on insurance proceeds	4,172	33,720
Net assets released from restriction for the Hospital building project	-	66,967
Total revenues, gains and other support	178,655	258,438
Unrestricted expenses:		
Support to St. Luke Hospital and Living Center	90,122	206,228
Administration	45,383	39,394
Fundraising	6,638	8,986
Thrift Shoppe expenses	39,984	30,213
Total expenses	182,127	284,821
Decrease in net assets without donor restrictions	(3,472)	(26,383)
Net assets with donor restrictions:		
Grants and contributions	-	67,320
Provision for uncollectible pledges	-	(353)
Net assets released from restriction for the Hospital projects	-	(66,967)
Increase (decrease) in net assets with donor restrictions	-	-
Decrease in net assets	(3,472)	(26,383)
Net assets, beginning of year	736,636	763,019
Net assets, end of year	$ 733,164	736,636

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, 2023 and 2022, cash equivalents consisted primarily of money market accounts.

Property taxes

The Hospital received approximately 5% of its financial support from property taxes for the years ended September 30, 2023 and 2022. One hundred percent of these funds were used to support operations in both years.

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

(Continued)

Risk management

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

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

Investments and investment income

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

Patient and resident accounts receivable

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

Supplies

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

Capital assets

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

(Continued)

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

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

Subscription assets

Subscription assets are initially recorded at the initial measurement of the subscription liability, plus subscription payments made at or before the commencement of the subscription-based information technology arrangement (SBITA) term less any SBITA vendor incentives received from the SBITA vendor at or before the commencement of the SBITA term, plus capitalizable initial implementation costs. Subscription assets are amortized on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying asset.

Interest expense

Interest expense incurred on borrowing funds during the period of construction of capital assets is expensed as incurred.

Debt issuance costs

Debt issuance costs represent costs incurred in connection with the issuance of long-term debt. Debt issuance costs incurred by the Hospital are expensed in the period incurred as required under governmental accounting standards.

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.

(Continued)

Net position

Net position of the Hospital is classified in three components. Net investment in capital assets consists of capital and subscription assets net of accumulated depreciation and amortization and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position is made up of amounts deposited with trustees as required by bond indentures and a donation receivable from the St. Luke Hospital Foundation for capital assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net patient and resident service revenue

The Hospital has agreements with third-party payors 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 payors 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 $14,092 and $25,548 for the years ended September 30, 2023 and 2022, 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.

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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, 2023 and 2022, the Foundation provided $90,122 and $206,228, respectively, of support to the Hospital.

The Foundation is a private nonprofit organization that reports under the Financial Accounting Standards Board Accounting Standards Codification (FASB 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.

New accounting and reporting standard - GASB 96

On October 1, 2022, the Hospital adopted GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements* (SBITA). This new statement establishes that a SBITA results in the recognition of a right-to-use asset and a corresponding subscription liability and provides for capitalization criteria for outlays other than subscription payments, including implementation cost of a SBITA. The subscription liability should be initially measured as the present value of the subscription payments expected to be made during the subscription term. See note 16 regarding the effect of adopting GASB Statement No. 96.

(Continued)

(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, 2021.

  The “Budget Control Act of 2011” requires, among other things, mandatory across-the-board reductions in federal spending, also known as sequestration. In general, Medicare claims with dates of service or dates of discharge on or after April 1, 2013 incur a 2% reduction in Medicare payments. On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) temporarily exempted Medicare from the effects of sequestration. This exemption was in effect from May 1, 2020 through March 31, 2022. From April 1, 2022 to June 30, 2022, a 1% reduction occurred and after June 30, 2022, the full 2% reduction was effective again.

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

  Services rendered for long-term care facility residents are reimbursed at a prospective rate, with annual cost reports submitted to the Medicaid program. Rates are computed using an average of the three most recent filed calendar 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.

(Continued)

Approximately 63% and 60% of net patient and resident service revenue for the years ended September 30, 2023 and 2022, 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 and resident service revenue increased by approximately $62,000 and $279,000 for the years ended September 30, 2023 and 2022, 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:

	2023	2022
Net patient and resident service revenue:		
Gross patient and resident service revenue:		
Medicare	$ 11,628,566	11,193,106
Medicaid	2,711,764	2,242,361
Commercial insurance and other	7,661,185	8,204,153
Uninsured/self-pay	1,170,278	1,289,667
Charity care deductions	(20,377)	(38,659)
Gross patient and resident service revenue (after charity care)	23,151,416	22,890,628
Contractual adjustments:		
Medicare	3,986,720	3,585,015
Medicaid	1,022,820	888,891
Commercial insurance and other	3,255,336	3,377,082
Total contractual adjustments	8,264,876	7,850,988
Net patient and resident service revenue	14,886,540	15,039,640
Provision for bad debts	(372,514)	(488,656)
Net patient and resident service revenue, less provision for bad debts	$ 14,514,026	14,550,984

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

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

(Continued)

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

The receipt of these funds are considered voluntary nonexchange transactions and recorded as a liability, advanced grants, and are recognized as nonoperating revenues in the accompanying statements of revenues, expenses and changes in net position as all the terms and conditions are considered met. The terms and conditions are subject to interpretation, changes and future clarification, the most recent of which have been considered through the date the financial statements were available to be issued. In addition, the funds may be subject to oversight, monitoring and audit. Failure to comply with any term or condition can subject the Hospital to recoupment of some or all of the distributions. The Hospital believes it has met certain terms and conditions during the applicable reporting periods and therefore recognized $824,530, $241,875 and $3,124,934 as grants - provider relief funds and capital grants - provider relief funds for the years ended September 30, 2023, 2022, and 2021, respectively. As part of the period 1 provider relief fund reporting, the Hospital paid back $332,281 of the period 1 funds. The 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.

(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.

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.

(Continued)

At September 30, 2023 and 2022, the Hospital's bank balances were exposed to custodial credit risk as follows:

	2023	2022
Bank balances:		
Insured and collateralized	$ 16,366,512	15,397,797
Petty cash and outstanding items	(11,463)	(43,937)
	$ 16,355,049	15,353,860

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, 2023 and 2022, the Hospital had the following investments and maturities:

	2023				
		Maturities in Years			
Type	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. agencies obligations	$ 335,267	163,571	171,696	-	-

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

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.

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.

(Continued)

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, 2023 and 2022, 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, 2023 and 2022, 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:

	2023	2022
Carrying value:		
Deposits	$ 16,354,749	15,353,560
Petty cash	300	300
Investments	335,267	326,391
	$ 16,690,316	15,680,251

Included in the following statements of financial position captions:

	2023	2022
Cash and cash equivalents	$ 16,132,217	15,137,991
Restricted cash - held under bond indenture	222,832	215,869
Held under bond indenture for debt service	335,267	326,391
	$ 16,690,316	15,680,251

Investment income

All investment income for the years ended September 30, 2023 and 2022 consisted of interest income.

(Continued)

(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, 2023 and 2022 consisted of the following:

	2023	2022
Receivable from:		
Patients and residents	$ 611,769	711,085
Patients and residents' insurance carriers	1,056,056	1,178,996
Medicare	1,017,155	1,065,005
Medicaid	306,893	347,652
Total patient and resident accounts receivable	2,991,873	3,302,738
Allowances for:		
Contractual adjustments	927,400	990,100
Uncollectible accounts	558,279	608,591
Total allowances	1,485,679	1,598,691
Net patient and resident accounts receivable	$ 1,506,194	1,704,047

(Continued)

(6) Capital and Subscription Assets

Capital asset additions, transfers/retirements, and balances for the years ended September 30, 2023 and 2022 were as follows:

	2022	Additions	Transfers/ Retirements	2023
Historical costs				
Land (not being depreciated)	$ 28,253	-	-	28,253
Land improvements	238,385	-	-	238,385
Buildings and improvements	10,171,779	219,311	-	10,391,090
Fixed equipment	1,615,011	31,253	-	1,646,264
Major moveable equipment	3,982,161	187,382	(64,436)	4,105,107
Construction in progress (not being depreciated)	21,839	385,385	(303,115)	104,109
Total historical costs	16,057,428	823,331	(367,551)	16,513,208
Less accumulated depreciation				
Land improvements	(83,423)	(13,496)	-	(96,919)
Buildings and improvements	(6,155,855)	(475,183)	-	(6,631,038)
Fixed equipment	(708,245)	(89,133)	-	(797,378)
Major moveable equipment	(2,804,156)	(311,845)	64,436	(3,051,565)
Total accumulated depreciation	(9,751,679)	(889,657)	64,436	(10,576,900)
Net capital assets	$ 6,305,749	(66,326)	(303,115)	5,936,308

(Continued)

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

Construction in progress at September 30, 2023 pertains to multiple equipment and architectural projects. These projects started in the winter of 2022 and are expected to be completed in the spring of 2024, with estimated remaining costs and contractual commitments to complete of approximately $1,053,000.

Subscription asset additions, transfers/retirements, and balances for the years ended September 30, 2023 and 2022 were as follows:

	2022	Additions	Transfers/ Retirements	2023
Historical costs				
Subscription assets	$ 99,249	-	-	99,249
Less accumulated amortization				
Subscription assets	(8,271)	(33,083)	-	(41,354)
Net subscription assets	$ 90,978	(33,083)	-	57,895

(Continued)

	2021	Additions	Transfers/ Retirements	2022
Historical costs				
Subscription assets	$ -	99,249	-	99,249
Less accumulated amortization				
Subscription assets	-	(8,271)	-	(8,271)
Net subscription assets	$ -	90,978	-	90,978

(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.

Activity in the Hospital's accrued employee health claims liability during 2023 is summarized as follows:

Balance, beginning of year (accrued expenses)	$ 85,877
Current year claims incurred and changes in estimates for claims incurred in prior years	687,172
Claims and expenses paid	(667,432)
Balance, end of year (accrued expenses)	$ 105,617

(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.

(Continued)

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.

(9) Long-term Debt

A schedule of changes in long-term debt obligations for the years ended September 30, 2023 and 2022 is as follows:

	2022	Additions	Reductions	2023	Current Portion
Long-term debt, 2020 revenue bonds	$ 4,805,000	-	(200,000)	4,605,000	205,000
Less current installments	200,000			205,000	
Long-term debt, excluding current installments	$ 4,605,000			4,400,000	

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

2020 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.

(Continued)

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, 2023 and 2022, the Hospital's historical debt-service coverage ratio was 6.0.

The debt service requirements as of September 30, 2023 are as follows:

Year ending September 30,	Principal	Interest
2024	$ 205,000	140,719
2025	205,000	137,900
2026	210,000	134,525
2027	215,000	130,538
2028	220,000	125,857
2029-2033	1,185,000	532,910
2034-2038	1,400,000	312,851
2039-2041	965,000	55,218
Total	$ 4,605,000	1,570,518

(10) Lease Obligations

A schedule of changes in lease obligations for the years ended September 30, 2023 and 2022 is as follows:

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

All required lease obligations were paid off as of September 30, 2022.

(Continued)

(11) Subscription Obligations

A schedule of changes in subscription obligations for the years ended September 30, 2023 and 2022 is as follows:

	2022	Additions	Reductions	2023	Current Portion
Long-term subscription obligations	$ 91,424	-	(32,090)	59,334	33,397
Less current installments	32,090			33,397	
Long-term subscription obligations, excluding current installments	$ 59,334			25,937	

	2021	Additions	Reductions	2022	Current Portion
Long-term subscription obligations	$ -	99,249	(7,825)	91,424	32,090
Less current installments	-			32,090	
Long-term subscription obligations, excluding current installments	$ -			59,334	

Subscription obligations require monthly payments of $2,921 over the contract term of 36 months. The Hospital established the subscription obligation asset and liability using an imputed interest rate of 4%.

Scheduled principal and interest payments on the subscription obligations are as follows:

Year Ending September 30,	Principal	Interest
2024	$ 33,397	1,846
2025	25,937	347
Total	$ 59,334	2,193

(Continued)

(12) Pension Plans

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Hospital. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 3.34% and 1.15% for 2023 and 3.72% and .89% for 2022, respectively. Contributions actually made by plan members and the Hospital were $232,100 and $79,946, respectively, during 2023, and $239,052 and $57,088, respectively, during 2022.

(13) 340B Drug Pricing Program

The Hospital began participating in the 340B Drug Pricing Program (340B Program) during 2016, enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues of $853,236 and $1,461,884 for the years ended September 30, 2023 and 2022, 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 $229,070 and $429,431 for the years ended September 30, 2023 and 2022, respectively, which is included in supplies and other in the accompanying statements of revenues, expenses and changes in net position. This program is overseen by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs (OPA). HRSA is currently conducting routine audits of these programs at health care organizations and increasing its compliance monitoring processes. Laws and regulations governing the 340B Program are complex and subject to interpretation and change. As a result, it is reasonably possible that material changes to financial statement amounts related to the 340B Program could occur in the near term.

(14) Disclosures About Fair Value of Assets and Liabilities

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

Level 1 Quoted prices in active markets for identical assets or liabilities

(Continued)

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, 2023 and 2022:

	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, 2023 investments by fair value level U.S. agencies obligations	$ 335,267	335,267	-	-
September 30, 2022 investments by fair value level U.S. agencies obligations	$ 326,391	326,391	-	-

(15) St. Luke Hospital Foundation

Financial statements

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

(Continued)

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, 2023 and 2022, there were no net assets with restrictions on them.

Functional allocation of expenses

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

Liquidity and availability

The Foundation's financial assets available within one year of the statement of financial position date for general expenditures included the following assets of the Foundation at September 30, 2023 and 2022:

	2023	2022
Cash	$ 328,229	396,927
Certificates of deposit	331,257	324,339
Subtotal	659,486	721,266
Less amounts payable to the Hospital	57,272	47,156
Financial assets available within one year	$ 602,214	674,110

(Continued)

(16) Adoption of GASB No. 96, *Subscription-Based Technology Arrangements*

Effective October 1, 2022 the Hospital adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements* (SBITAs). The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for information technology subscriptions by governments. This Statement increase the usefulness of a government's financial statements by requiring recognition of certain subscription assets and liabilities for subscriptions that previously were recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. This Statement required a retrospective transition method using the facts and circumstances that existed at the beginning of the earliest year presented. As a result, the Hospital was required to retroactively restate the September 30, 2022 amounts as follows:

	As Restated	Previously Reported	Effect of Adoption
Balance sheet:			
Subscription assets, net	$ 99,249	-	99,249
Current portion of subscription obligations	32,090	-	32,090
Subscription obligations	59,334	-	59,334
Net position – net investment in capital assets	1,500,303	1,500,749	(446)
Statement of revenues, expenses and changes in net position:			
Supplies and other	7,451,782	7,460,544	(8,762)
Depreciation and amortization	865,781	857,510	8,271
Interest expense	146,824	145,887	937
Increase in net position	1,417,730	1,418,176	(446)
Net position, end of year	18,209,139	18,209,585	(446)
Statement of cash flows:			
Cash paid to suppliers	(7,357,822)	(7,366,584)	8,762
Net cash provided in operating activities	476,797	468,035	8,762
Principal payments on subscription obligations	(7,825)	-	(7,825)
Interest paid	(147,324)	(146,387)	(937)
Net cash used in capital and related financial activities	(733,386)	(724,624)	(8,762)
Operating income (loss)	(53,761)	(54,252)	491
Depreciation and amortization	865,781	857,510	8,271

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, 2022

	Actual	Tax Budget	Actual Over (Under) Budget
Net patient and resident service revenue	$ 15,029,404	13,190,000	1,839,404
Other revenue	1,852,675	1,274,600	578,075
Total operating revenue	16,882,079	14,464,600	2,417,479
Total operating expenses	15,987,985	23,972,914	(7,984,929)
Interest paid	145,637	145,637	0
Operating expenses	16,133,622	24,118,551	(7,984,929)
Operating income (loss)	748,457	(9,653,951)	10,402,408
Property tax revenue	891,479	891,494	(15)
Other nonoperating revenues	296,641	237,495	59,146
Total nonoperating revenues	1,188,120	1,128,989	59,131
Excess (deficiency) of revenues over expenses	$ 1,936,577	(8,524,962)	10,461,539

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, 2023

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Financial Assistance Listing 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	$ 474,530
Passed Through the State of Kansas Department of Health and Environment:			
COVID-19 Rural Health Research Centers	93.155	6H3LRH42228	255,246
Small Rural Hospital Improvement Program	93.301	H3H00019	11,388
			266,634
Total United States Department of Health and Human Services			741,164
United States Department of Treasury, Passed Through the State of Kansas Department of Aging and Disability Services, COVID-19 Coronavirus State and Local Fiscal Recovery Fund	21.027	N/A	24,597
Total Expenditures of Federal Awards			$ 765,761

See Notes to Schedule of Expenditures of Federal Awards

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(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, 2023

A. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal awards activity of Marion County Hospital District #1 of Marion County, Kansas d/b/a St. Luke Hospital and Living Center (the Hospital) under programs of the federal government for the year ended September 30, 2023. The accompanying schedule presents total expenditures in accordance with Title 2 U.S. *Code of Federal Regulations* 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, 2023 and is presented on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance.

C. Provider Relief Fund Reporting

The Hospital received amounts from the U.S. Department of Health and Human Services (HHS) through the Provider Relief Fund and American Rescue Plan Rural Distribution (PRF) program (Federal Financial Assistance Listing #93.498). PRF amounts are to be reported based on the dates actually received. Period 1 reporting encompassed amounts 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 amounts 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 amounts 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 amounts 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 amounts 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 periods 4 and 5 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, 2023

The PRF expenditures are not recognized on the schedule until the expenditures are included in the reporting to HHS as required under the PRF program resulting in the Hospital's recognition and reporting for financial statement purposes not matching with the PRF reporting timeline. A reconciliation of total expenditures of periods 4 and 5 PRF awards to amounts recognized in the Hospital's financial statements is as follows:

Total PRF amounts included in the expenditures of federal awards	$ 474,530
Amounts reflected in the audited financial statements, in the "Statements of Revenues, Expenses and Changes in Net Position":	
Grants – provider relief funds	$ 474,530
Period 1 deferred amounts recognized in FY2023	350,000
	$ 824,530

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

We have audited, in accordance with the 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) and its discretely presented component unit, as of and for the year ended September 30, 2023 and the related notes to the financial statements which collectively comprise the Hospital's basic financial statements, and have issued our report thereon dated June 26, 2024.

Report on 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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses or significant deficiencies may exist that were not identified.

* * * * * *

(Continued)

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Report on 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 audit, 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.*

* * * * * *

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 Hospital'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 Hospital's internal control and compliance. Accordingly, this report is not suitable for any other purpose.

Dohman, Akerlund & Eddy, LLC

Aurora, Nebraska
June 26, 2024

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

Report on Compliance for Each Major Federal Program

Opinion on 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, 2023. 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.

In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2023.

Basis for Opinion on Each Major Federal Program

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). Our responsibilities under those standards and the Uniform Guidance are further described in the *Auditor's Responsibilities for the Audit of Compliance* section of our report.

We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for each major federal program. Our audit does not provide a legal determination of the Hospital's compliance with the compliance requirements referred to above.

(Continued)

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Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to on the previous page and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of grant agreements applicable to the Hospital's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Hospital's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgement made by a reasonable user of the report on compliance about the Hospital's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risk. Such procedures include examining, on a test basis, evidence regarding the Hospital's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the Hospital's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other things, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

(Continued)

Report on 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 *Auditor's Responsibilities for the Audit of Compliance* section on the previous page and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses as defined above. However, material weaknesses or significant deficiencies in internal control over compliance may exist that were not identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

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
June 26, 2024

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, 2023

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_ None reported
Significant deficiency(ies) identified?	___ Yes _X_ None reported
Noncompliance material to financial statements noted?	___ Yes _X_ No

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	___ Yes _X_ None reported
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)?	___ Yes _X_ No
Identification of major programs:	

Program Name	CFDA
United States Department of Health and Human Services, 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

No matters are reportable

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

FINDING

No matters are reportable

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

Summary Schedule of Prior Audit Findings

Year Ended September 30, 2023

FINDING 2021-001 SEGREGATION OF DUTIES – SIGNIFICANT DEFICIENCY

Condition

The auditors noted that not all major accounting areas had complete segregation duties.

Current status

Additional staff were added to improve segregation of duties. No similar finding was noted in the 2023 audit.

FINDING 2021-002

Program

CFDA Number 93.498
U.S. Department of Health and Human Services
COVID-19 Provider Relief Fund

Criteria/Condition

The auditors noted 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 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 resulted in $279,443 of questioned costs being reported.

Current status

The Hospital worked with HRSA to resolve this matter and during the period 4 filing the Hospital amended its lost revenue filing resulting in sufficient lost revenue amounts to cover the questioned costs. The Hospital received a letter dated September 5, 2023 stating HRSA reviewed the Hospital's PRF reporting submission for period 4 and determined that the Hospital had sufficient lost revenue to offset the questioned costs. The letter also stated that HRSA concluded that the Hospital has satisfactorily resolved finding 2021-002 and that no further action is required. No similar finding was noted in the 2023 audit.

FY2022

There are no findings to report on for FY2022 as the FY2022 audit was not subject to Yellow Book or Uniform Guidance audit requirements.