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

Financial Statements

Years Ended September 30, 2024 and 2023

(Together With Independent Auditor's Report)

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

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Years Ended September 30, 2024 and 2023

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INDEPENDENT AUDITOR'S REPORT

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

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, 2024 and 2023, 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, 2024 and 2023 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*. 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 audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

(Continued)

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In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about 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 and the *Kansas Municipal Audit and Accounting Guide* 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 and the *Kansas Municipal Audit and Accounting Guide*, 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.
- 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.

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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 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 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
March 25, 2025

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

Statements of Financial Position

September 30, 2024 and 2023

Assets	2024	2023
Current assets:		
Cash and cash equivalents	$ 6,868,767	16,132,217
Certificates of deposit	5,000,000	-
Restricted cash - held under bond indenture	222,384	222,832
Investments	5,013,069	-
Patient and resident accounts receivable, net of contractual adjustments and estimated uncollectibles of $2,250,000 in 2024 and $1,485,679 in 2023	2,459,797	1,506,194
Receivable from St. Luke Hospital Foundation	2,417	57,272
Other receivables	249,987	109,392
Supplies	404,086	359,518
Prepaid expenses	76,374	141,820
Estimated third-party payor settlements	-	945,000
Total current assets	20,296,881	19,474,245
Assets whose use is limited or restricted, held under bond indenture for debt service	355,721	335,267
Other receivables	9,021	12,021
Capital assets	17,639,729	16,513,208
Less accumulated depreciation	11,280,899	10,576,900
Net capital assets	6,358,830	5,936,308
Subscription assets	99,249	99,249
Less accumulated amortization	74,437	41,354
Net subscription assets	24,812	57,895
	$ 27,045,265	25,815,736

See accompanying notes to financial statements.

Liabilities and Net Position	2024	2023
Current liabilities:		
Current installments of:		
Long-term debt	$ 205,000	205,000
Subscription obligations	25,938	33,397
Accounts payable	663,078	651,257
Accrued expenses - salaries, wages and benefits	848,821	719,858
Accrued interest payable	46,479	47,333
Estimated third-party payor settlements	340,000	35,000
Total current liabilities	2,129,316	1,691,845
Long-term debt, excluding current maturities	4,195,000	4,400,000
Subscription obligations, excluding current installments	-	25,937
Total liabilities	6,324,316	6,117,782
Net position:		
Net investment in capital assets	1,957,704	1,329,869
Restricted - expendable for debt service	578,105	558,099
Unrestricted	18,185,140	17,809,986
Total net position	20,720,949	19,697,954
	$ 27,045,265	25,815,736

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, 2024 and 2023

	2024	2023
Operating revenues:		
Net patient and resident service revenue	$ 16,832,077	14,886,540
Provision for bad debts	(459,938)	(372,514)
Net patient and resident service revenue, less provision for bad debts	16,372,139	14,514,026
Other revenue	749,556	1,011,008
Total operating revenues	17,121,695	15,525,034
Operating expenses:		
Salaries and wages	7,601,493	6,982,345
Employee benefits	1,505,301	1,431,106
Supplies and other	7,703,690	7,385,654
Depreciation and amortization	971,507	922,740
Total operating expenses	17,781,991	16,721,845
Operating loss	(660,296)	(1,196,811)
Nonoperating revenues (expenses):		
Property taxes	928,101	919,945
Investment income	675,925	693,398
Interest expense	(141,513)	(145,289)
Grants - provider relief funds	-	824,530
Noncapital grants and contributions	140,978	117,079
Gain on disposition of capital assets	4,800	-
Total nonoperating revenues	1,608,291	2,409,663
Excess of revenues over expenses	947,995	1,212,852
Capital grants and contributions	75,000	275,963
Increase in net position	1,022,995	1,488,815
Net position, beginning of year	19,697,954	18,209,139
Net position, end of year	$ 20,720,949	19,697,954

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, 2024 and 2023

Increase (Decrease) in Cash and Cash Equivalents	2024	2023
Cash flows from operating activities:		
Cash received:		
Patients, residents, and third-party payors	$ 16,668,536	14,436,879
Other revenue	567,962	1,257,701
Cash paid to and on behalf of employees	(8,977,831)	(8,433,383)
Cash paid to suppliers	(7,658,528)	(7,337,384)
Net cash provided (used) by operating activities	600,139	(76,187)
Cash flows from noncapital financing activities:		
Property taxes received	931,338	916,308
Noncapital grants and contributions received	195,833	106,963
Net cash provided by noncapital financing activities	1,127,171	1,023,271
Cash flows from capital and related financing activities:		
Capital expenditures	(1,372,880)	(514,555)
Capital grants and gifts received	75,000	275,963
Principal payments on long-term debt	(205,000)	(200,000)
Principal payments on subscription obligations	(33,396)	(32,090)
Proceeds from sale of capital assets	4,800	-
Interest paid	(142,367)	(145,956)
Net cash used by capital and related financing activities	(1,673,843)	(616,638)
Cash flows from investing activities:		
Interest income received	703,089	679,619
Investment in other interest bearing deposits	(5,000,000)	-
Investments purchased	(5,000,000)	-
Net change in construction escrow and debt-related accounts	(20,454)	(8,876)
Net cash provided (used) by investing activities	(9,317,365)	670,743
Net increase (decrease) in cash and cash equivalents	(9,263,898)	1,001,189
Cash and cash equivalents, beginning of year	16,355,049	15,353,860
Cash and cash equivalents, end of year	$ 7,091,151	16,355,049
Reconciliation of cash and cash equivalents to the statements of financial position:		
Cash and cash equivalents	$ 6,868,767	16,132,217
Restricted cash - held under bond indenture	222,384	222,832
	$ 7,091,151	16,355,049

(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, 2024 and 2023

Reconciliation of Operating Loss to Net Cash Provided or Used by Operating Activities	2024	2023
Operating loss	$ (660,296)	(1,196,811)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:		
Depreciation	971,507	922,740
Provision for bad debts	459,938	372,514
Decrease (increase) in:		
Patient and resident accounts receivable	(1,413,541)	(174,661)
Other receivables	(181,065)	260,467
Inventories	(44,568)	(47,357)
Prepaid expenses	65,446	(41,679)
Estimated third-party payor settlements	945,000	(260,000)
Increase (decrease) in:		
Accounts payable	23,755	127,704
Accrued expenses - salaries, wages and benefits	128,963	(19,932)
Advanced insurance proceeds	-	(4,172)
Estimated third-party payor settlements	305,000	(15,000)
Net cash provided (used) by operating activities	$ 600,139	(76,187)

Supplemental Disclosure of Cash Flows Information

	2024	2023
Capital asset additions included in accounts payable	$ 10,249	22,183

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, 2024 and 2023

Assets	2024	2023
Cash	$ 272,053	328,229
Certificates of deposit	347,655	331,257
Property plant and equipment, net of accumulated depreciation of $24,728 in 2024 and $20,769 in 2023	129,675	133,634
Total assets	$ 749,383	793,120
Liabilities and Net Assets		
Accounts payable	$ 8,484	2,684
Contributions payable to St. Luke Hospital and Living Center	2,417	57,272
Total liabilities	10,901	59,956
Net assets without donor restrictions	738,482	733,164
	$ 749,383	793,120

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, 2024 and 2023

	2024	2023
Unrestricted revenues, gains and other support:		
Contributions	$ 51,115	34,539
Thrift Shoppe income	119,136	126,890
Interest income	21,821	13,054
Gain on insurance proceeds	-	4,172
Total revenues, gains and other support	192,072	178,655
Unrestricted expenses:		
Support to St. Luke Hospital and Living Center	119,729	90,122
Administration	24,383	45,383
Fundraising	7,640	6,638
Scholarships	3,959	-
Thrift Shoppe	31,043	39,984
Total expenses	186,754	182,127
Decrease in net assets without donor restrictions	5,318	(3,472)
Net assets, beginning of year	733,164	736,636
Net assets, end of year	$ 738,482	733,164

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, 2024 and 2023, 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, 2024 and 2023. 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.

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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.

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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 approximately $12,000 and $14,000 for the years ended September 30, 2024 and 2023, 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, 2024 and 2023, the Foundation provided $119,729 and $90,122, 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.

(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, 2022.

  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.

(Continued)

- **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.

Approximately 54% and 63% of net patient and resident service revenue for the years ended September 30, 2024 and 2023, 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 $31,000 and $62,000 for the years ended September 30, 2024 and 2023, 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:

	2024	2023
Net patient and resident service revenue:		
Gross patient and resident service revenue:		
Medicare	$ 12,208,540	11,628,566
Medicaid	2,573,661	2,711,764
Commercial insurance and other	9,873,532	7,661,185
Uninsured/self-pay	1,750,781	1,170,278
Charity care deductions	(17,990)	(20,377)
Gross patient and resident service revenue (after charity care)	26,388,524	23,151,416
Contractual adjustments:		
Medicare	4,997,295	3,986,720
Medicaid	725,548	1,022,820
Commercial insurance and other	3,833,604	3,255,336
Total contractual adjustments	9,556,447	8,264,876
Net patient and resident service revenue	16,832,077	14,886,540
Provision for bad debts	(459,938)	(372,514)
Net patient and resident service revenue, less provision for bad debts	$ 16,372,139	14,514,026

(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.). 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) 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 for the years ended September 30, 2023, 2022, and 2021, respectively. 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, 2024 and 2023, the Hospital's bank balances were exposed to custodial credit risk as follows:

	2024	2023
Bank balances:		
Insured and collateralized	$ 12,105,322	16,366,512
Petty cash and outstanding items	(14,171)	(11,463)
	$ 12,091,151	16,355,049

Investments

The Hospital may legally invest in direct obligations 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, 2024 and 2023, the Hospital had the following investments and maturities:

	2024				
		Maturities in Years			
Type	Fair Value	Less than 1	1-5	6-10	More than 10
U.S. treasury bills and notes	$ 5,013,069	2,512,567	2,500,502	-	-
U.S. agencies obligations	355,721	181,474	174,247	-	-
	$ 5,368,790	2,694,041	2,674,749	-	-

	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	-	-

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, 2024 and 2023, 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.

Concentration of Credit Risk - The Hospital places no limit on the amount that may be invested in any one issuer. At September 30, 2024 and 2023, 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:

	2024	2023
Carrying value:		
Deposits	$ 12,090,851	16,354,749
Petty cash	300	300
Investments	5,368,790	335,267
	$ 17,459,941	16,690,316

Included in the following statements of financial position captions:

	2024	2023
Cash and cash equivalents	$ 6,868,767	16,132,217
Certificates of deposits	5,000,000	-
Restricted cash - held under bond indenture	222,384	222,832
Investments	5,013,069	-
Investments - held under bond indenture for debt service	355,721	335,267
	$ 17,459,941	16,690,316

(Continued)

Investment income

All investment income for the years ended September 30, 2024 and 2023 consisted of the following:

	2024	2023
Interest income	$ 662,856	693,398
Unrealized gains	13,069	-
Investment income	$ 675,925	693,398

(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, 2024 and 2023 consisted of the following:

	2024	2023
Receivable from:		
Patients and residents	$ 826,813	611,769
Patients and residents' insurance carriers	1,696,074	1,056,056
Medicare	1,699,963	1,017,155
Medicaid	486,947	306,893
Total patient and resident accounts receivable	4,709,797	2,991,873
Allowances for:		
Contractual adjustments	1,600,600	927,400
Uncollectible accounts	649,400	558,279
Total allowances	2,250,000	1,485,679
Net patient and resident accounts receivable	$ 2,459,797	1,506,194

(Continued)

(6) Capital and Subscription Assets

Capital asset additions, transfers/retirements, and balances for the years ended September 30, 2024 and 2023 were as follows:

	2023	Additions	Transfers/ Retirements	2024
Historical costs				
Land (not being depreciated)	$ 28,253	-	-	28,253
Land improvements	238,385	-	-	238,385
Buildings and improvements	10,391,090	1,043,473	88,860	11,523,423
Fixed equipment	1,646,264	89,431	-	1,735,695
Major moveable equipment	4,105,107	228,042	(234,425)	4,098,724
Construction in progress (not being depreciated)	104,109	-	(88,860)	15,249
Total historical costs	16,513,208	1,360,946	(234,425)	17,639,729
Less accumulated depreciation				
Land improvements	(96,919)	(12,321)	-	(109,240)
Buildings and improvements	(6,631,038)	(456,369)	-	(7,087,407)
Fixed equipment	(797,378)	(79,199)	-	(876,577)
Major moveable equipment	(3,051,565)	(390,535)	234,425	(3,207,675)
Total accumulated depreciation	(10,576,900)	(938,424)	234,425	(11,280,899)
Net capital assets	$ 5,936,308	422,522	-	6,358,830

(Continued)

	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

Construction in progress at September 30, 2024 is for minor landscaping work remaining to be fully completed with no significant contractual commitments.

Subscription asset additions, transfers/retirements, and balances for the years ended September 30, 2024 and 2023 were as follows:

	2023	Additions	Transfers/ Retirements	2024
Historical costs				
Subscription assets	$ 99,249	-	-	99,249
Less accumulated amortization				
Subscription assets	(41,354)	(33,083)	-	(74,437)
Net subscription assets	$ 57,895	(33,083)	-	24,812

(Continued)

	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

(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 2024 is summarized as follows:

Balance, beginning of year (accrued expenses)	$ 105,617
Current year claims incurred and changes in estimates for claims incurred in prior years	777,672
Claims and expenses paid	(788,887)
Balance, end of year (accrued expenses)	$ 94,402

(8) Medical Malpractice Coverage and Claims

The Hospital is insured for professional liability under a comprehensive hospital liability policy provided by an independent insurance carrier with limits of $500,000 per occurrence up to an annual aggregate of $1,500,000 for all claims made during the policy year. The Hospital is further covered by the Kansas Health Care Stabilization Fund for claims in excess of its comprehensive hospital liability policy up to $500,000 pursuant to any one judgment or settlement against the Hospital for any one party, subject to an aggregate limitation for all judgments or settlements arising from all claims made in the policy year in the amount of $1,500,000. In addition, the Hospital carries an umbrella policy which also provides $1,000,000 per occurrence and $3,000,000 aggregate coverage.

(Continued)

These policies provide coverage on a claims-made basis covering only those claims which have occurred and are reported to the insurance company while coverage is in force. The Hospital accrues the expense of its share of asserted and unasserted claims occurring during the year by estimating the probable ultimate cost of any such claim. Based upon the Hospital's claim experience, no such accrual has been made. However, because of the risks involved in providing healthcare services, it is possible that an event has occurred which will be the basis of a future material claim.

(9) Long-term Debt

A schedule of changes in long-term debt obligations for the years ended September 30, 2024 and 2023 is as follows:

	2023	Additions	Reductions	2024	Current Portion
Long-term debt, 2020 revenue bonds	$ 4,605,000	-	(205,000)	4,400,000	205,000
Less current installments	205,000			205,000	
Long-term debt, excluding current installments	$ 4,400,000			4,195,000	

	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	

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, 2024 and 2023, the Hospital's historical debt-service coverage ratio was 5.4 and 6.1, respectively.

The debt service requirements as of September 30, 2024 are as follows:

Year ending September 30,	Principal	Interest
2025	$ 205,000	137,900
2026	210,000	134,525
2027	215,000	130,538
2028	220,000	125,857
2029	225,000	120,403
2030-2034	1,220,000	494,620
2035-2039	1,450,000	261,113
2040-2041	655,000	24,843
Total	$ 4,400,000	1,429,799

(10) Subscription Obligations

A schedule of changes in subscription obligations for the years ended September 30, 2024 and 2023 is as follows:

	2023	Additions	Reductions	2024	Current Portion
Long-term subscription obligations	$ 59,334	-	(33,396)	25,938	25,938
Less current installments	33,397			25,938	
Long-term subscription obligations, excluding current installments	$ 25,937			-	

(Continued)

	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	

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	$ 25,938	347

(11) Pension Plans

The Hospital contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Hospital's required contributions, determined in accordance with the terms of the plan. The plan is administered by the Hospital. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital's governing body. Contribution rates for plan members and the Hospital expressed as a percentage of covered payroll were 3.29% and 1.16% for 2024 and 3.34% and 1.15% for 2023, respectively. Contributions actually made by plan members and the Hospital were $249,835 and $87,977, respectively, during 2024, and $232,100 and $79,946, respectively, during 2023.

(Continued)

(12) 340B Drug Pricing Program

The Hospital began participating in the 340B Drug Pricing Program (340B Program) during 2016, enabling the Hospital to receive discounted prices from drug manufacturers on outpatient pharmaceutical purchases. The Hospital recorded revenues of $621,122 and $853,236 for the years ended September 30, 2024 and 2023, 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 $197,805 and $229,070 for the years ended September 30, 2024 and 2023, 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.

(13) Disclosures About Fair Value of Assets and Liabilities

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

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

Level 2 Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities

Level 3 Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

(Continued)

Recurring measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at September 30, 2024 and 2023:

	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, 2024				
investments by fair value level:				
U.S. Treasury				
Notes and Bills	$ 5,013,069	5,013,069		
U.S. agencies obligations	355,721	355,721	-	-
	$ 5,368,790	5,368,790	-	-
September 30, 2023				
investments by fair value level:				
U.S. agencies obligations	$ 335,267	335,267	-	-

(14) St. Luke Hospital Foundation

Financial statements

As discussed in note 1, the Foundation meets the component unit criteria under governmental accounting and reporting standards and is therefore discretely presented as a component unit in the Hospital's financial statements. The financial statements of the Foundation are presented in accordance with the provisions of 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, 2024 and 2023, 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, 2024 and 2023:

	2024	2023
Cash	$ 272,053	328,229
Certificates of deposit	347,655	331,257
Subtotal	619,708	659,486
Less amounts payable to the Hospital	2,417	57,272
Financial assets available within one year	$ 617,291	602,214

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, 2023

	Actual	Tax Budget	Actual Over (Under) Budget
Net patient and resident service revenue	$ 14,813,821	14,393,000	420,821
Other revenue	777,248	1,376,800	(599,552)
Total operating revenue	15,591,069	15,769,800	(178,731)
Total operating expenses	16,665,474	24,123,819	(7,458,345)
Interest paid	144,956	144,956	-
Operating expenses	16,810,430	24,268,775	(7,458,345)
Operating loss	(1,219,361)	(8,498,975)	7,279,614
Property tax revenue	920,858	913,981	6,877
Other nonoperating revenues	686,313	26,348	659,965
Total nonoperating revenues	1,607,171	940,329	666,842
Excess (deficiency) of revenues over expenses	$ 387,810	(7,558,646)	7,946,456