

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

FINANCIAL STATEMENTS

and

ADDITIONAL INFORMATION

with

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2019 AND 2018

GBN, P.A.

Certified Public Accountants

TABLE OF CONTENTS

	<u>Page</u>
Independent auditor's report	1
Management's discussion and analysis	3
Financial statements:	
Statements of net position	9
Statements of revenues, expenses, and changes in net position	11
Statements of cash flows	12
Notes to financial statements	14
Additional information:	
Schedule of revenues, expenditures, and changes in fund balances – Budget and actual – Budgetary basis – Operations and maintenance fund	28
Schedule of revenues, expenditures, and changes in fund balances – Budget and actual – Budgetary basis – Employee benefits fund	29
Schedule of revenues, expenditures, and changes in fund balances – Budget and actual – Budgetary basis – Debt service fund	30
Schedule of patient service revenue	31
Schedule of operating expenses by functional division	32

GBN, P.A.
Certified Public Accountants
Business Consultants
Tax Advisors

12001 E. 13th St. N. • Wichita, Kansas 67206 • Telephone (316) 262-6277

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Artesian Valley Health System
a/k/a Meade Hospital District
Meade, Kansas

Report on the Financial Statements

We have audited the financial statements of the Artesian Valley Health System a/k/a Meade Hospital District (the System), as listed in the table of contents, at and for the years ended December 31, 2019 and 2018. These financial statements are the responsibility of the System's management. Our responsibility is to express opinions on these financial statements based on our audits.

Management's Responsibility 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; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Artesian Valley Health System a/k/a Meade Hospital District as of December 31, 2019 and 2018, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Additional Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 8 be presented to supplement the basic financial statements. Such information, although not

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

Our audits were made for the purpose of forming opinions on the basic financial statements taken as a whole. The additional information, as listed in the table of contents, 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 financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the financial statements themselves and other additional procedures, in accordance with auditing standards generally accepted in the United States of America. In our opinion, the additional information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

GBN, P.A.

Wichita, Kansas
April 26, 2021

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of the Artesian Valley Health System a/k/a Meade Hospital District (the System's) financial performance provides an overview of the System's financial activities for the fiscal years ended December 31, 2019 and 2018. Please read it in conjunction with the System's financial statements, which begin on page 9.

Financial Highlights

- The System's net position increased in 2019 by \$24,125 or 1.20% compared to a decrease in 2018 of \$1,078,928 or 34.93%.
- Contractual allowances, charity care and bad debts reduced gross patient service revenue by \$2,892,391 or 19.25% of gross patient service revenue in 2019 and by \$1,498,321 or 10.90% of gross patient service revenue in 2018.
- The System reported an operating loss in both 2019 (\$2,063,243) and 2018 (\$3,126,710). The operating loss in 2019 decreased by \$1,063,467 or 34.01% from the loss reported in 2018. The operating loss in 2018 increased by \$942,508 or 43.15% from the loss reported in 2017.
- Net nonoperating revenues/expenses increased by \$39,586 or 1.93% in 2019 compared to an increase in 2018 of \$127,852 or 6.66%.

Financial Statements

The System's financial statements are prepared using proprietary fund accounting that focuses on the determination of changes in net position, financial position and cash flows in a manner similar to private-sector businesses. The financial statements are prepared on an accrual basis of accounting which recognizes revenue when earned and expenses when incurred. The basic financial statements include a *statement of net position*, *statement of revenue, expenses and changes in net position*, and *statement of cash flows*, followed by notes to the financial statements and schedules of certain additional information.

The *statement of net position* presents information on the System's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the difference between them reported as net position. Over time, increases or decreases in net position may indicate whether the financial position of the System is improving or deteriorating.

The *statement of revenues, expenses and changes in net position* presents both the operating revenues and expenses and nonoperating revenues and expenses along with other changes in net position for the year. This statement is an indication of the success of the System's operations over the past year.

The *statement of cash flows* presents the change in cash and cash equivalents for the year resulting from operating activities, capital and related financing activities and investing activities. The primary purpose of this statement is to provide information about the System's cash receipts and cash payments during the year.

Net Position

The information below summarizes the System's net position as of December 31, 2019, 2018 and 2017.

	<u>December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets:			
Current assets	\$ 5,827,518	\$ 4,934,056	\$ 5,638,031
Capital assets, net	<u>3,012,747</u>	<u>3,075,689</u>	<u>3,730,970</u>
Total assets	<u>\$ 8,840,265</u>	<u>\$ 8,009,745</u>	<u>\$ 9,369,001</u>
Deferred outflows of resources:			
Loss on refunding	<u>\$ 9,583</u>	<u>\$ 18,306</u>	<u>\$ 29,533</u>
Liabilities:			
Non-current liabilities	\$ 1,489,460	\$ 2,110,051	\$ 2,746,181
Other liabilities	<u>3,415,202</u>	<u>2,119,559</u>	<u>1,803,397</u>
Total liabilities	<u>\$ 4,904,662</u>	<u>\$ 4,229,610</u>	<u>\$ 4,549,578</u>
Deferred inflows of resources:			
Deferred property taxes receivable	<u>\$ 1,910,835</u>	<u>\$ 1,788,215</u>	<u>\$ 1,759,802</u>
Net position:			
Invested in capital assets, net	\$ 930,408	\$ 357,129	\$ 388,172
Restricted	760,413	834,455	899,916
Unrestricted	<u>343,530</u>	<u>818,642</u>	<u>1,801,066</u>
Total net position	<u>\$ 2,034,351</u>	<u>\$ 2,010,226</u>	<u>\$ 3,089,154</u>

Recent Financial Performance

The schedule below is a summary of the System's revenues, expenses and changes in net position for the years ended December 31, 2019, 2018 and 2017.

	<u>Year ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating revenue	\$ 12,195,582	\$ 12,323,747	\$ 13,175,120
Operating expenses:			
Salaries	7,484,644	7,820,381	8,110,611
Employee benefits	1,817,205	2,081,495	2,110,808
Supplies and other	4,439,119	4,882,073	4,379,642
Depreciation and amortization	<u>517,857</u>	<u>666,508</u>	<u>758,261</u>
Total operating expenses	<u>14,258,825</u>	<u>15,450,457</u>	<u>15,359,322</u>
Operating loss	<u>(2,063,243)</u>	<u>(3,126,710)</u>	<u>(2,184,202)</u>

	Year ended December 31,		
	2019	2018	2017
Nonoperating revenues (expenses):			
Taxes	\$ 1,822,079	\$ 1,840,169	\$ 1,800,911
Investment income	14,645	14,158	11,456
Interest expense	(47,989)	(61,566)	(73,145)
Grants and contributions	48,058	86,159	41,818
Other, net	<u>250,575</u>	<u>168,862</u>	<u>138,890</u>
Total nonoperating revenues (expenses)	<u>2,087,368</u>	<u>2,047,782</u>	<u>1,919,930</u>
Increase/(decrease) in net position	<u>\$ 24,125</u>	<u>\$ (1,078,928)</u>	<u>\$ (264,272)</u>
Net position at end of year	<u>\$ 2,034,351</u>	<u>\$ 2,010,226</u>	<u>\$ 3,089,154</u>

Overall, operating revenues decreased 1.04% from 2018 to 2019 and decreased 6.46% from 2017 to 2018.

- Net patient service revenue decreased 1.00% from 2018 to 2019 as compared to a decrease of 6.46% from 2017 to 2018.
- Tax revenue increased 0.99% from 2018 to 2019 as compared to an increase of 2.18% from 2017 to 2018. The 2019 ad valorem tax mill rate decreased 0.315 mills over the amount for 2018. The 2018 ad valorem tax mill rate decreased 0.987 mills compared to 2017.

Overall, operating expenses decreased 7.71% from 2018 to 2019 and increased 0.59% from 2017 to 2018.

- Salaries, wages, and employee benefits decreased 6.06% from 2018 to 2019 and decreased 3.13% from 2017 to 2018.
- Full-time equivalent employees decreased by 15.16 or 8.61% from 2018 to 2019 as compared to a decrease of 8.29 or 4.50% from 2017 to 2018.
- Depreciation expense decreased 22.30% from 2018 to 2019 compared to a decrease of 12.10% from 2017 to 2018. The decrease in 2019 compared to 2018 was due primarily to certain fixed equipment placed in service in 2004 with the construction of the Hospital facility becoming fully depreciated in 2019. The decrease in 2018 and 2017 was primarily due to significant electronic health record system assets placed in service in 2014 and 2015 becoming fully depreciated.

It is important to note that the calculation of the operating loss is a result of the application of accounting principles generally accepted ("GAAP") in the United States of America. The System receives tax revenues in part to subsidize the cost of services provided to uninsured patients. Although the expenses incurred to provide these services are recognized as operating expenses, GAAP reporting rules require that the tax revenues be reported as non-operating revenues.

Non-operating revenues and expenses consist primarily of property taxes levied by the System, interest expense on long-term debt, and grants and contributions.

Patient Volumes

Pertinent patient volume statistics are summarized in the following table:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Inpatient acute days	632	540	598
Observation bed days	<u>225</u>	<u>172</u>	<u>154</u>
	<u>857</u>	<u>712</u>	<u>752</u>
Percent change	<u>20.37%</u>	<u>(5.32)%</u>	<u>(6.47)%</u>
Swing bed days	<u>310</u>	<u>229</u>	<u>484</u>
Percent change	<u>35.37%</u>	<u>(52.69)%</u>	<u>65.75%</u>
LTCU days	<u>12,577</u>	<u>11,873</u>	<u>13,818</u>
Percent change	<u>5.93%</u>	<u>(14.08)%</u>	<u>(9.62)%</u>
RHC visits	<u>10,046</u>	<u>8,984</u>	<u>9,611</u>
Percent change	<u>11.82%</u>	<u>(6.52)%</u>	<u>5.23%</u>

Capital Assets

At the end of 2019, the System had \$3,012,747 invested in capital assets, net of accumulated depreciation, as detailed in Note 9 to the financial statements. The System acquired additional capital assets in 2019, 2018 and 2017 as follows:

	<u>Year ended December 31,</u>		
	<u>2019</u>	<u>2018</u>	<u>2017</u>
Ultrasound	\$ —	\$ —	\$ 65,000
Hemostasis testing system	—	—	43,000
Fire protection system	—	—	12,907
Heat exchanger	37,914	—	—
Blood bank refrigerator	8,528	—	—
Telemetry patient monitor	43,434	—	—
Colonoscopy equipment	19,889	—	—
Gastroscope equipment	10,046	—	—
Glidescope equipment	5,680	—	—
DS Dimmer HS ACL monitor	10,101	—	—
TS contract for ACL TOP 300	7,600	—	—
New roof on LTCU	163,000	—	—
Meditech system (in process)	140,000	—	—
Other - various	<u>—</u>	<u>—</u>	<u>13,852</u>
	<u>\$ 446,192</u>	<u>\$ —</u>	<u>\$ 134,759</u>

Debt

At December 31, 2013, the System had \$4,175,000 of general obligation bonds outstanding that had been issued to finance the construction of the new facility that opened in 2004. During 2014, the general obligation bonds

were refunded with the issuance of \$3,885,000 in general obligation refunding bonds. Also in 2014, the System issued \$475,000 in revenue bonds to provide financing for additions to the electronic health records systems. Additionally, the System had \$90,000 of certificates of participation outstanding that had been issued in 2005 to finance the acquisition of a local nursing home facility to be utilized as a long-term care unit. These certificates of participation were fully repaid in 2015.

The System also leases certain laboratory and imaging equipment under capital lease agreements with remaining outstanding balances totaling \$79,245 at December 31, 2019.

Other Economic Factors

The estimated assessed valuation for the System for 2020 is \$102,422,050 which is an increase of \$7,401,969 compared to the 2019 final assessed valuation amount of \$95,020,081. The total ad valorem taxes levied for 2020 was \$1,920,389 compared to \$1,797,157 for 2019.

Issues Facing the System

There are issues facing the System that could result in material changes in its financial position in the long term. Among these issues are:

- Issues related to COVID-19 pandemic. As noted above, the effect on service levels as well as additional pandemic related costs, has resulted in some uncertainty regarding operations going forward. However, these uncertainties are somewhat mitigated by the federal and state pandemic assistance programs as discussed in Note 11 to the financial statements. Management will continue to monitor the situation closely and the effects on operations and cash flows.
- Risks related to Medicare and Medicaid reimbursement. A significant portion of the System's revenues are derived from the Medicare program, which provides certain healthcare benefits to beneficiaries who are over 65 years of age or disabled, and the Medicaid program, funded jointly by the federal government and the states, which provides medical assistance to certain needy individuals and families. The funding of these programs by the federal and state governments face increasing pressure due to the significant increases in the costs of providing healthcare services in recent years.
- Employment and labor issues. The System is a major employer within the community, employing a complex mix of professional, technical, clerical, maintenance, dietary, and other workers. Risks include personal tort actions, work-related injuries and exposure to hazardous materials. A relative shortage of nursing and other medical professional/technical employees, is an issue that is causing salary and benefits costs to increase at significant rates.
- Technology and services. Scientific and technological advances, new procedures, drugs and appliances, preventive medicine, and outpatient healthcare delivery may reduce utilization and revenues for the System in the future. Technological advances continue to accelerate the need to acquire sophisticated and expensive equipment and services for diagnosis and treatment of illnesses and diseases.
- Increasing numbers of uninsured and underinsured patients. Due to the significant increases and high cost of healthcare insurance premiums in recent years, increasing numbers of patients of the System are finding it more and more difficult to obtain or maintain adequate health insurance coverage. This trend could increase the levels of uncompensated care provided by the System.

Contacting The System's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the System's finances and to show the System's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Administration Department, at 510 E. Carthage, Meade, Kansas, 67864.

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Current assets:		
Cash – Unrestricted (Notes 1 and 3)	\$ 657,465	\$ –
Cash – Restricted (Notes 1 and 3)	760,413	834,455
Accounts receivable, net of allowance for doubtful accounts of \$1,615,051 in 2019 and \$1,228,274 in 2018	2,102,935	1,410,457
Property taxes receivable (Note 1)	1,910,835	1,788,215
Estimated third-party payer settlements (Note 2)	–	420,566
Inventories (Note 1)	317,396	413,026
Prepaid expenses	<u>78,474</u>	<u>67,337</u>
Total current assets	<u>5,827,518</u>	<u>4,934,056</u>
Property and equipment, at cost (Notes 1, 4 and 9):		
Land	86,142	86,142
Land improvements	1,292,296	1,292,296
Buildings and fixed equipment	7,897,023	7,734,023
Movable equipment	7,052,959	6,909,767
Projects in progress	<u>140,000</u>	<u>–</u>
Total property and equipment	16,468,420	16,022,228
Less accumulated depreciation	<u>13,455,673</u>	<u>12,946,539</u>
Net property and equipment	<u>3,012,747</u>	<u>3,075,689</u>
Total assets	<u>8,840,265</u>	<u>8,009,745</u>
Deferred outflows of resources – Deferred refunding costs – net of accumulated amortization of \$67,623 in 2019 and \$58,040 in 2018 (Notes 1 and 4)	<u>9,583</u>	<u>18,306</u>
Total assets and deferred outflows of resources	<u>\$ 8,849,848</u>	<u>\$ 8,028,051</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>December 31,</u>	
	<u>2019</u>	<u>2018</u>
Current liabilities:		
Bank overdraft	\$ —	\$ 214,768
Accounts payable	284,387	360,081
Salaries and payroll taxes payable	246,112	223,892
Estimated third-party payer settlements (Note 2)	1,581,349	—
Current portion of compensated absences payable (Note 1)	667,562	665,104
Current portion of long-term debt (Note 4)	620,694	636,217
Accrued interest payable	<u>15,098</u>	<u>19,497</u>
Total current liabilities	<u>3,415,202</u>	<u>2,119,559</u>
Long-term debt (Note 4)	1,461,645	2,082,338
Compensated absences payable (Note 1)	<u>27,815</u>	<u>27,713</u>
Total non-current liabilities	<u>1,489,460</u>	<u>2,110,051</u>
Total liabilities	<u>4,904,662</u>	<u>4,229,610</u>
Deferred inflows of resources:		
Deferred property taxes receivable (Note 1)	<u>1,910,835</u>	<u>1,788,215</u>
Net position (Notes 1 and 7):		
Net investment in capital assets	930,408	357,129
Restricted – expendable for specific operating activities	760,413	834,455
Unrestricted	<u>343,530</u>	<u>818,642</u>
Total net position	<u>2,034,351</u>	<u>2,010,226</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 8,849,848</u>	<u>\$ 8,028,051</u>

The accompanying notes are an integral
part of the financial statements.

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	<u>Year ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Operating revenues:		
Net patient service revenue (Note 1)	\$ 12,131,265	\$ 12,253,903
Other	<u>64,317</u>	<u>69,844</u>
Total operating revenues	<u>12,195,582</u>	<u>12,323,747</u>
Operating expenses:		
Salaries	7,484,644	7,820,381
Employee benefits	1,817,205	2,081,495
Purchased services	858,178	821,316
Medical supplies and drugs	870,832	951,601
Other supplies and expense	2,710,109	3,109,156
Depreciation and amortization	<u>517,857</u>	<u>666,508</u>
Total operating expenses	<u>14,258,825</u>	<u>15,450,457</u>
Operating loss	<u>(2,063,243)</u>	<u>(3,126,710)</u>
Nonoperating revenues (expenses):		
Taxes for operations	1,347,243	1,356,552
Taxes for debt service	474,836	483,617
Investment income	14,645	14,158
Interest expense	(47,989)	(61,566)
Noncapital grants and contributions	48,058	86,159
Other	<u>250,575</u>	<u>168,862</u>
Total nonoperating revenues	<u>2,087,368</u>	<u>2,047,782</u>
Increase (decrease) in net position	24,125	(1,078,928)
Net position at beginning of year	<u>2,010,226</u>	<u>3,089,154</u>
Net position at end of year	<u>\$ 2,034,351</u>	<u>\$ 2,010,226</u>

The accompanying notes are an integral
part of the financial statements.

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS

	<u>Year ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 13,440,702	\$ 11,558,366
Payments to suppliers and contractors	(4,430,320)	(4,529,734)
Payments to and on behalf of employees	(9,277,069)	(9,933,155)
Other receipts and payments, net	<u>64,317</u>	<u>69,844</u>
Net cash flows used by operating activities	<u>(202,370)</u>	<u>(2,834,679)</u>
Cash flows from noncapital financing activities:		
Property taxes for operations	1,347,243	1,356,552
Grants and contributions	48,058	86,159
Other	<u>250,575</u>	<u>168,862</u>
Net cash flows provided by noncapital financing activities	<u>1,645,876</u>	<u>1,611,573</u>
Cash flows from capital and related financing activities:		
Property taxes for debt service	474,836	483,617
Principal payments on long-term debt	(630,189)	(616,448)
Interest paid on long-term debt	(58,415)	(73,448)
Purchases of capital assets	<u>(446,192)</u>	<u>—</u>
Net cash flows provided (used) by capital and related financing activities	<u>(659,960)</u>	<u>(206,279)</u>
Cash flows provided by investing activities – Investment income	<u>14,645</u>	<u>14,158</u>
Net increase (decrease) in cash and cash equivalents	798,191	(1,415,227)
Cash and cash equivalents at beginning of year	<u>619,687</u>	<u>2,034,914</u>
Cash and cash equivalents at end of year	<u><u>\$ 1,417,878</u></u>	<u><u>\$ 619,687</u></u>
Reconciliation of cash and cash equivalents to the Balance Sheets:		
Cash	\$ 657,465	\$ —
Restricted cash	760,413	834,455
Bank overdraft	<u>—</u>	<u>(214,768)</u>
	<u><u>\$ 1,417,878</u></u>	<u><u>\$ 619,687</u></u>

ARTESIAN VALLEY HEALTH SYSTEM
a/k/a MEADE HOSPITAL DISTRICT
STATEMENTS OF CASH FLOWS - continued

	<u>Year ended December 31,</u>	
	<u>2019</u>	<u>2018</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (2,063,243)	\$ (3,126,710)
Adjustments to reconcile operating loss to net cash flows used in operating activities:		
Depreciation and amortization	517,857	666,508
Provision for doubtful accounts	592,904	404,624
Deferred inflows of property taxes receivable	122,620	28,413
Net (increases) decreases in current assets:		
Accounts receivable	(1,285,382)	(621,157)
Property taxes receivable	(122,620)	(28,413)
Inventories	95,630	33,110
Estimated third-party payor settlements	420,566	(420,566)
Other current assets	(11,137)	135,918
Net increases (decreases) in current liabilities:		
Accounts payable	(80,093)	179,220
Salaries and wages payable	22,220	(33,422)
Compensated absences payable	2,560	2,143
Estimated third-party payor settlements	1,581,349	(58,438)
Accrued interest payable	4,399	4,091
Net cash used by operating activities	<u>\$ (202,370)</u>	<u>\$ (2,834,679)</u>

The accompanying notes are an integral
part of the financial statements.

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

December 31, 2019 and 2018

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of operations and reporting entity

Meade Hospital District (the District) is a political subdivision of the state of Kansas organized under the hospital district statutes of the state. The District owns and operates the Artesian Valley Health System (the System). The System is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code.

The System operates an acute care hospital, long-term care unit, and rural health clinic and is located in Meade, Kansas. The System primarily earns revenues by providing inpatient, outpatient, emergency care, long-term care, physician clinic, and home health services to patients in the Meade County, Kansas area.

Basis of accounting and presentation

The financial statements of the System 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, investment income, interest on capital assets-related debt are included in nonoperating revenues and expenses.

The System prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, as amended, the System has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB), including those issued after November 30, 1989, that do not conflict with or contradict GASB pronouncements.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 and cash equivalents

For purposes of the statement of cash flows, the System includes checking, savings and NOW accounts as cash and cash equivalents, except for cash held by the fiscal paying agent.

1. **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**
(continued)

Patient accounts receivable

The System reports patient accounts receivable (Note 6) for services rendered at net realizable amounts from third-party payers, patients and others. The System provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information, payer mix trends, and existing economic conditions. As a service to patients, the System bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are generally due in full when billed. If the patient is unable to pay the full amount at the time the patient is billed, the System negotiates a payment plan whereby monthly payments are made by the patient on the account. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account. If future actual default rates on accounts receivable differ from those currently anticipated, the System may have to adjust its allowance for doubtful accounts, which would affect earnings in the period the adjustments are made.

Inventories

Inventories are stated at the lower of cost or market. Cost is determined by the first-in, first-out method.

Capital assets

The System's capital assets that are \$5,000 or greater, are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. All capital assets other than land are depreciated or amortized (in the case of capital leases) using the straight-line method of depreciation using the following estimated useful lives:

Land improvements	4 years
Buildings	10-40 years
Equipment	5-20 years

The costs of maintenance and repairs are charged to operating expenses as incurred. The costs of significant additions, renewals and betterments to depreciable properties are capitalized and depreciated over the remaining or extended estimated useful lives of the item or the properties. When depreciable property is retired or otherwise disposed of, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is reflected as non-operating revenue (expense).

Property taxes receivable

In accordance with governing statutes, property taxes levied during the current year are a revenue source to be used to finance the budget of the ensuing year. Taxes are assessed on a calendar year basis and become a lien on the property on November 1st of each year. The County Treasurer is the tax collection agent for all taxing entities within the County. Property owners have the option of paying one-half or the full amount of the taxes levied on or before December 20th during the year levied with the balance to be paid on or before May 10th of the ensuing year. State statutes prohibit the County Treasurer from distributing taxes collected in the year levied prior to January 1st of the ensuing year. Consequently, for revenue recognition purposes, the taxes levied during the current year are not due and receivable until the ensuing year. At December 31 such taxes are a lien on the property and are recorded as taxes receivable, net of anticipated delinquencies, with a corresponding amount recorded as deferred inflows of resources on the statement of net position.

1. **NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**
(continued)

Compensated absences payable

Employees of the System are entitled to paid time off depending on the length of service and whether they are full or part time. Upon resignation, termination or retirement from service with the System, employees with six or more months of employment are entitled to payment for all accrued hours, up to the allowable maximum. The System accrues paid time off benefits as earned.

Net position

Net position of the System is classified into three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted – expendable for specific operating activities* are noncapital net assets that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the System. *Unrestricted net position* are remaining assets plus deferred outflows of resources less remaining liabilities and deferred inflows of resources that do not meet the definition of net investment in capital assets or restricted expendable.

Operating revenues and expenses

The System's statement of revenues, expenses, and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the System's principal activity. Non-exchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Net patient service revenue

The System has agreements with third-party payers that provide for payments to the System at amounts different from its established rates. Payment arrangements include prospectively determined rates per episode, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered and includes estimated retroactive revenue adjustments under reimbursement agreements with third-party payers, and a provision for uncollectible accounts. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Charity care

The System provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy based on current poverty level guidelines. Because the System does not pursue collection of amounts determined to qualify as charity care, these charges are not reported as net patient service revenue. The System provided \$27,108 and \$66,454 of charity care for the years ended December 31, 2019 and 2018, respectively estimated by multiplying the System's cost to charge ratio by the gross uncompensated care charges associated with providing care to charity patients.

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Grants and contributions

From time to time, the System receives grants and contributions from government agencies, private organizations, and individuals. Revenues from grants and contributions are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenue. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses. When the System has both restricted and unrestricted resources available to finance a particular program, it is the System's policy to use restricted resources before unrestricted resources.

Budgetary principles

The System is required by state statute to adopt annual budgets using the modified accrual basis of accounting for the operation and maintenance, employee benefits and debt service funds on or before August 25 of the preceding year. The System's Board of Directors may amend the budget by transferring budgeted amounts from one object or purpose to another within the same fund. Expenditures may not legally exceed the total amount of the adopted budget of individual funds.

Under the modified accrual basis of accounting revenues are recognized when they become both measurable and available to finance expenditures of the current period. Expenditures are recognized when the related fund liability is incurred.

Applicable Kansas statutes require the use of an encumbrance system as a management control technique to assist in controlling expenditures. For budgetary purposes, encumbrances of the budgeted fund types, representing purchase orders, contracts and other commitments, are reported as a charge to the current year budget. All unencumbered appropriations lapse at the end of the year. There were no material encumbrances at December 31, 2019 and 2018. Budgeted revenue and expenditure amounts represent the original budget adopted by the System's Board of Directors.

The following reconciliation is presented to provide a correlation between the different basis of accounting for reporting in accordance with generally accepted accounting principles (GAAP) and for reporting on the budgetary basis:

	<u>Operation and Maintenance Fund</u>	<u>Employee Benefit Fund</u>	<u>Debt Service Fund</u>
GAAP basis net position at December 31, 2019	\$ 1,326,688	\$ —	\$ 707,663
Adjustments:			
Net property and equipment	(3,012,745)	—	—
Deferred loss on refunding	(9,583)	—	—
Accrued interest payable	15,098	—	—
Net long-term debt	<u>2,082,339</u>	<u>—</u>	<u>—</u>
Budgetary basis fund balance at December 31, 2019	<u>\$ 401,797</u>	<u>\$ —</u>	<u>\$ 707,663</u>

1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(continued)

Risk management

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

Workers' compensation coverage is provided through a fund managed by the Kansas Hospital Association. The premiums are subject to retrospective adjustment based upon the overall performance of the fund. Management believes adequate reserves are in place to cover claims incurred but not reported.

Deferred inflows of resources/Deferred outflows of resources

In addition to assets, the statements of net position report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period and is not recognized as an outflow of resources (expense/expenditure) until the future period. The Hospital District reports amounts related to deferred debt refunding costs on the statement of net position as a deferred outflow of resources.

In addition to liabilities, the statements of net position report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period and is not recognized as an inflow of resources (revenue) until that time. The Hospital District reports amounts related to property taxes receivable on the statements of net position as a deferred inflow of resources.

Taxation

The Hospital District is a political subdivision of the State of Kansas and is exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law.

The Foundation has received a ruling from the Internal Revenue Service exempting it from federal income tax in accordance with Section 501(c)(3) of the Internal Revenue Code. The federal exemption from income tax is also recognized by state authorities.

Other reclassifications

Certain other reclassifications have been made to the 2018 financial statements to conform to the 2019 presentation. These other reclassifications had no effect on the change in net position.

Subsequent events

Subsequent events have been evaluated through April 26, 2021 which is the date the financial statements were available to be issued.

2. ESTIMATED THIRD-PARTY PAYER SETTLEMENTS

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

2. **ESTIMATED THIRD-PARTY PAYER SETTLEMENTS (continued)**

Medicare – The Hospital is recognized as a Critical Access Hospital (CAH) under the Medicare program. As such, inpatient acute care, skilled swing-bed and certain outpatient services rendered to program beneficiaries are paid at 101% of allowable cost subject to certain limitations. Certain other outpatient services are paid based on fee schedules. The Hospital is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and reviews thereof by the Medicare administrative contractor. The System's Medicare cost reports have been reviewed by the Medicare fiscal intermediary through December 31, 2018. Beginning in 2013, a mandatory payment reduction, known as sequestration, of 2% of program cost went into effect and under current legislation, sequestration is scheduled to last until 2027. However, on March 27, 2020, the CARES Act temporarily suspended the Medicare program from the effects of the sequestration. This suspension, effective May 1, 2020, has been extended several times and currently is scheduled to last through December 31, 2021.

- **Medicaid** – Inpatient and outpatient services rendered to program beneficiaries are reimbursed on a prospective payment methodology, which includes a hospital specific add-on percentage that is based on previously filed cost reports.

Approximately 43% and 47% of net patient service revenue is from participation in the Medicare program for the years ended December 31, 2019 and 2018, respectively. Laws and regulations governing the Medicare program are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The System has also entered into payment agreements with certain commercial insurance carriers and other third-party payer programs. The basis for payment to the System under these agreements includes prospectively determined rates per discharge, discounts from established charges and cost reimbursement.

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

3. **CASH AND INVESTED CASH**

Deposits

Custodial credit risk for deposits is the risk that in the event of bank failure, the System's deposits may not be returned or the System will not be able to recover collateral securities in the possession of an outside party. The System's policy follows applicable State statutes and requires deposits to be 100% secured by collateral (pledged securities) valued at market, less the amount of the Federal Deposit Insurance Corporation (FDIC) insurance. State statutes define the allowable types of pledged securities.

The System's cash and investments on deposit at financial institutions at December 31, 2019 consisted of NOW accounts, certificates of deposit, time certificates and savings accounts. At year end, the carrying amount of the System's deposits, which approximates their fair value, was \$1,417,608 with the bank balances of such accounts being \$1,480,668. Of the bank balances, \$567,913 was secured by federal depository insurance and the remaining balance of \$912,755 was covered by collateral held by the System's custodial banks in joint custody in the name of the System and its banks. The market value of those pledged securities held by the System's custodial banks was \$1,301,084 at December 31, 2019.

The remaining carrying amount of the System's cash and investments at December 31, 2019 consisted of cash on hand of \$270.

3. CASH AND INVESTED CASH (continued)

Investment policies

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. The System does not have a formal investment policy. Investing activities are managed under the custody of the System's Chief Executive Officer and at the direction of the Board of Directors and in compliance with State statutes.

Applicable state statutes authorize the System to invest in (1) temporary notes or no-fund warrants issued by the System (2) time deposit, open accounts or certificates of deposit, with maturities of not more than two years, in commercial banks; (3) time certificates of deposit, with maturities of not more than two years, with state or federally chartered savings and loan associations or federally chartered savings banks, (4) repurchase agreements with commercial banks, state or federally chartered savings and loan associations or federally chartered savings banks; (5) United States treasury bills or notes with maturities as the governing body shall determine, but not exceeding two years; (6) the municipal investment pool maintained by the State Treasurer's office, and (7) trust departments of commercial banks.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. Investments held for longer periods are subject to increased risk of adverse interest rate changes. The System's policies provide that to the extent practicable, investments are matched with anticipated cash flows.

4. LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES

The following is a summary of changes in long-term debt and other noncurrent liabilities for the years ended December 31, 2019 and 2018:

	Balance At December 31, <u>2018</u>	<u>Additions</u>	<u>Reductions</u>	Balance At December 31, <u>2019</u>	Amounts Due Within <u>One Year</u>
Bonds and capital lease obligations:					
General obligation bonds	\$ 2,165,000	\$ —	\$ 515,000	\$ 1,650,000	\$ 530,000
Premium on bonds	12,607	—	6,027	6,580	4,179
Revenue bonds	374,265	—	27,751	346,514	28,861
Capital lease obligations	<u>166,683</u>	<u>—</u>	<u>87,438</u>	<u>79,245</u>	<u>57,654</u>
	<u>2,718,555</u>	<u>—</u>	<u>636,217</u>	<u>2,082,339</u>	<u>620,694</u>
Other liabilities:					
Compensated absences payable	<u>692,817</u>	<u>638,902</u>	<u>636,342</u>	<u>695,377</u>	<u>667,562</u>
Total noncurrent liabilities	<u>\$ 3,411,372</u>	<u>\$ 638,902</u>	<u>\$ 1,272,559</u>	<u>\$ 2,777,716</u>	<u>\$ 1,288,256</u>

4. LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES (continued)

	Balance At December 31, 2017	Additions	Reductions	Balance At December 31, 2018	Amounts Due Within One Year
Bonds and capital lease obligations:					
General obligation bonds	\$ 2,670,000	\$ —	\$ 505,000	\$ 2,165,000	\$ 515,000
Premium on bonds	20,398	—	7,792	12,607	6,027
Revenue bonds	400,949	—	26,684	374,265	27,751
Capital lease obligations	<u>251,447</u>	<u>—</u>	<u>84,764</u>	<u>166,683</u>	<u>87,439</u>
	<u>3,342,794</u>	<u>—</u>	<u>624,240</u>	<u>2,718,555</u>	<u>636,217</u>
Other liabilities:					
Compensated absences payable	<u>690,674</u>	<u>664,277</u>	<u>662,134</u>	<u>692,817</u>	<u>665,104</u>
Total noncurrent liabilities	<u>\$ 4,033,468</u>	<u>\$ 664,277</u>	<u>\$ 1,286,374</u>	<u>\$ 3,411,372</u>	<u>\$ 1,301,321</u>

General obligation bonds

In November 2014, the System issued \$3,885,000 in general obligation bonds to advance refund \$3,800,000 of outstanding General Obligation Refunding Bonds, Series 2006 (Refunded Bonds). The advance refunding reduced the System's aggregate debt service payments by \$252,247 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of \$251,952.

The General Obligation Refunding Bonds, Series 2014 mature in various amounts ranging from \$250,000 to \$570,000 beginning on February 1, 2015 with the final payment due on February 1, 2022. Interest, at 2%, is due semiannually on February 1 and August 1 beginning on February 1, 2015. Interest expense on the Series 2014 bonds was \$27,832 and \$36,350 for 2019 and 2018, respectively.

The Board of Directors of the System are to make proper provision for the payment of principal and interest of the general obligation bonds, in whole or in part, by a tax levy.

Annual funding requirements to maturity for the general obligation bonds are as follows:

	Principal	Interest	Total
Year ending December 31:			
2020	\$ 530,000	\$ 27,700	\$ 557,700
2021	550,000	16,900	566,900
2022	<u>570,000</u>	<u>5,700</u>	<u>575,700</u>
	<u>\$ 1,650,000</u>	<u>\$ 50,300</u>	<u>\$ 1,700,300</u>

4. **LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES** (continued)

Revenue bonds

In November 2014, the System issued \$475,000 of Hospital Revenue Bonds, Series 2014 bearing interest at 4% with a final maturity on November 26, 2029 to provide funding for the acquisition and installation of certain electronic health records systems.

Annual funding requirements to maturity for the revenue bonds are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending December 31:			
2020	\$ 28,861	\$ 13,861	\$ 42,722
2021	30,016	12,706	42,722
2022	31,217	11,505	42,722
2023	32,465	10,257	42,722
2024	33,764	8,958	42,722
2025	35,114	7,608	42,722
2026	36,519	6,203	42,722
2027	37,980	4,742	42,722
2028	39,499	3,223	42,722
2029	41,079	1,643	42,722
	<u>\$ 346,514</u>	<u>\$ 80,706</u>	<u>\$ 427,220</u>

The System is required by the bond resolution to maintain specific funds and accounts within the treasury of the System as follows:

- (a) Project fund
- (b) Debt service reserve fund
- (c) Revenue fund
- (d) Debt service account
- (e) Costs of issuance account

The net proceeds from the sale of the revenue bonds shall be deposited as follows: (a) the sum of \$6,500 to the cost of issuance account and (b) the remaining balance of the proceeds to the project fund. Moneys in the cost of issuance account shall be used to pay the cost of issuance of the revenue bonds. Moneys in the project fund are to be used for the sole purpose of paying the costs of the project. Upon completion of project, any surplus remaining in the project fund shall be deposited in a debt service account.

For as long as the bonds are outstanding all of the revenues derived from the operation of the System shall be deposited in the revenue fund and administered as follows:

- (1) On the first day of each month an amount not less than 1/12 of the amount of principal and interest that will become due on the next succeeding bond payment date; and
- (2) An amount shall be credited to the operation and maintenance account an amount sufficient to pay the estimated expenses of the System during the ensuing 45 day period; and
- (3) An amount shall be credited to the debt service reserve fund each month equal to 1/120 (\$356) of the debt service reserve requirement until the amount on deposit in the debt service reserve fund aggregates to \$42,722.

4. **LONG-TERM DEBT AND OTHER NONCURRENT LIABILITIES** (continued)

After all payments and credits required to be made under preceding paragraph have been made, all remaining revenues shall be paid and credited to the surplus account, and may be expended and used as determined at the discretion of the Board of Directors of the System.

In addition to the reserve requirements required by the bond resolution discussed above, the purchaser of the bonds, the United States Department of Agriculture/Rural Development (USDA), required the System to establish an additional reserve fund of \$27,474.

Capital lease obligations

The System leases certain medical equipment under capital lease agreements. Interest expense under the capital lease agreements was \$5,294 and \$9,059 for the years ended December 31, 2019 and 2018, respectively.

The medical equipment leases qualify as capital leases for accounting purposes and, accordingly, have been recorded at the present value of the minimum lease payments at the date of lease inception.

The following is an analysis of the financial presentation of the above capital leases:

	December 31,	
	2019	2018
Movable equipment.....	\$ 290,400	\$ 393,760
Accumulated depreciation.....	(187,049)	(217,825)
	<u>\$ 103,351</u>	<u>\$ 175,935</u>

The following is a schedule by years of future minimum lease payments under capital leases together with the present value of the net minimum lease payments as of December 31, 2019:

Year ending December 31,	
2020	\$ 59,489
2021	13,968
2022	<u>8,148</u>
Total minimum lease payments	81,605
Less amount representing interest	<u>2,360</u>
Present value of net minimum lease payments.....	<u>\$ 79,245</u>

5. **PENSION PLAN**

The System maintains a defined contribution pension plan for its employees. Upon employment, all employees are eligible to participate in the plan. The plan requires that the employee contribute 5% and the employer contribute 9% of the employee's compensation. Benefits are 100% vested upon participation in the plan. Pension cost, which is funded as accrued, was \$666,404 and \$748,402 for the years ended December 31, 2019 and 2018.

6. CONCENTRATIONS OF CREDIT RISK

The System grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payers was as follows:

	December 31,	
	2019	2018
Medicare	\$ 1,179,141	\$ 811,833
Medicaid	243,907	298,783
Commercial	1,545,445	906,217
Private pay	<u>749,493</u>	<u>621,898</u>
Gross accounts receivable	3,717,986	2,638,731
Less allowance for doubtful accounts	<u>1,615,051</u>	<u>1,228,274</u>
	<u>\$ 2,102,935</u>	<u>\$ 1,410,457</u>

State statutes place no limit on the amount the System may invest in any one issuer as long as the investments are adequately secured (Note 3). The System's allocation of cash and investments by depository as of December 31, 2019, is as follows:

Fowler State Bank	74%
Plains State Bank	21%
Meade State Bank	5%

7. RESTRICTED NET POSITION

Activity relating to restricted net position for the years ending December 31, 2019 and 2018 is as follows:

	Balance At December 31, 2018	Additions	Assets Released	Balance At December 31, 2019
Debt service for general obligation bonds	\$ 785,977	\$ 474,836	\$ 553,150	\$ 707,663
Debt service for revenue bonds	3,560	42,722	42,722	3,560
Reserve for revenue bonds	17,444	4,272	—	21,716
Reserve for revenue bonds - USDA	27,474	—	—	27,474
Employee benefits	—	534,680	534,680	—
	<u>\$ 834,455</u>	<u>\$ 1,056,510</u>	<u>\$ 1,130,552</u>	<u>\$ 760,413</u>
	Balance At December 31, 2017	Additions	Assets Released	Balance At December 31, 2018
Debt service for general obligation bonds	\$ 855,710	\$ 483,617	\$ 553,350	\$ 785,977
Debt service for revenue bonds	3,560	42,722	42,722	3,560
Reserve for revenue bonds	13,172	4,272	—	17,444
Reserve for revenue bonds - USDA	27,474	—	—	27,474
Employee benefits	—	544,242	544,242	—
	<u>\$ 899,916</u>	<u>\$ 1,074,853</u>	<u>\$ 1,140,314</u>	<u>\$ 834,455</u>

8. OTHER POST EMPLOYMENT BENEFITS

As provided by K.S.A. 12-5040, the Hospital is required to allow qualifying retirees to participate in the group health insurance plan. While each retiree is required to pay the full amount of the applicable premium, conceptually, the Hospital is subsidizing the retirees because each participant is charged a level premium regardless of age. However, the cost of the subsidy, if any, has not been quantified in these financial statements. Management believes that the effect on the financial statements is not significant.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the Hospital makes health care benefits available to eligible former employees and their eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid entirely by the insured and there is no cost to the Hospital under this plan.

9. CAPITAL ASSETS

Capital asset additions, disposals, and balances for the years ended December 31, 2019 and 2018 were as follows:

	Balance At December 31, 2018	Additions	Disposals	Balance At December 31, 2019
Capital assets not being depreciated:				
Land	\$ 86,142	\$ —	\$ —	\$ 86,142
Projects in progress	—	140,000	—	140,000
	<u>86,142</u>	<u>140,000</u>	<u>—</u>	<u>226,142</u>
Capital assets being depreciated:				
Land improvements	1,292,296	—	—	1,292,296
Buildings and fixed equipment	7,734,023	163,000	—	7,897,023
Movable equipment	<u>6,909,767</u>	<u>143,192</u>	<u>—</u>	<u>7,052,959</u>
Total capital assets being depreciated	<u>15,936,086</u>	<u>306,192</u>	<u>—</u>	<u>16,242,278</u>
Less accumulated depreciation for:				
Land improvements	907,923	49,606	—	957,529
Buildings and fixed equipment	5,836,338	230,967	—	6,067,305
Movable equipment	<u>6,202,278</u>	<u>228,561</u>	<u>—</u>	<u>6,430,839</u>
Total accumulated depreciation	<u>12,946,539</u>	<u>509,134</u>	<u>—</u>	<u>13,455,673</u>
Total capital assets being depreciated, net	<u>2,989,547</u>	<u>(202,942)</u>	<u>—</u>	<u>2,786,605</u>
Total capital assets, net	<u>\$ 3,075,689</u>	<u>\$ (62,942)</u>	<u>\$ —</u>	<u>\$ 3,012,747</u>

9. CAPITAL ASSETS (continued)

	Balance At December 31, 2017	Additions	Disposals	Balance At December 31, 2018
Capital assets not being depreciated:				
Land	\$ 86,142	\$ —	\$ —	\$ 86,142
Capital assets being depreciated:				
Land				
improvements	1,292,296	—	—	1,292,296
Buildings and fixed equipment	7,734,023	—	—	7,734,023
Movable equipment	6,909,767	—	—	6,909,767
Total capital assets being depreciated	15,936,086	—	—	15,936,086
Less accumulated depreciation for:				
Land				
improvements	853,921	54,002	—	907,923
Buildings and fixed equipment	5,491,342	344,996	—	5,836,338
Movable equipment	5,945,995	256,283	—	6,202,278
Total accumulated depreciation	12,291,258	655,281	—	12,946,539
Total capital assets being depreciated, net	3,644,828	(655,281)	—	2,989,547
Total capital assets, net	\$ 3,730,970	\$ (655,281)	\$ —	\$ 3,075,689

10. CONTINGENCIES

The System provides for annual medical malpractice coverage under a claims-made policy. 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 additional claims-made coverage for each medical incident.

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 System's claims experience, no such accrual has been made. It is reasonably possible that this determination could change materially in the near term.

11. SUBSEQUENT EVENT

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to many countries, including the United States. On March 11, 2020, the World Health Organization (WHO) characterized the COVID-19 as a global pandemic as it continued to spread rapidly throughout the world. Business continuity, including supply chains and consumer demand across a broad range of industries and countries have been and may continue to be severely impacted for months or beyond as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic.

In 2020 and in response to the pandemic, the federal government through the Department of Health and Human Services (HHS) has provided stimulus funds totaling approximately \$4.1 million to assist in managing the additional costs and disruptions in normal operations incurred by healthcare providers as a result of the pandemic. HHS requires that certain conditions be met in order to retain these funds. If these conditions are met in full, the funds will be retained by the System.

Additionally, the System has obtained a loan through a local bank in the amount of \$1,348,646 that is fully guaranteed by the U.S. Small Business Administration (SBA) under the Paycheck Protection Program (PPP) that was implemented in response to the pandemic. If the System meets certain conditions under the program, all or part of the loan will be forgiven.

The System has also received a grant of \$100,000 from the State of Kansas to assist in managing operations and cash flows during the pandemic.

Management continues to carefully monitor the requirements of these programs and evaluate the Hospital's compliance and requirements for the use and retention of these funds. No adjustments have been made to these financial statements as a result of this uncertainty.

ADDITIONAL INFORMATION

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

OPERATION AND MAINTENANCE FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – BUDGET AND ACTUAL – BUDGETARY BASIS**

Year ended December 31, 2019

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance With Final Budget Positive (Negative)
Revenues:				
Net patient service revenue	\$ 14,628,246	\$ 14,628,246	\$ 12,131,265	\$ (2,496,981)
Taxes	836,877	836,877	812,563	(24,314)
Other	<u>451,317</u>	<u>451,317</u>	<u>377,595</u>	<u>(73,722)</u>
Total revenues	<u>15,916,440</u>	<u>15,916,440</u>	<u>13,321,423</u>	<u>(2,595,017)</u>
Expenditures:				
Salaries	8,782,307	8,782,307	7,484,644	1,297,663
Employee benefits	1,595,872	1,595,872	1,282,525	313,347
Supplies and contractual services	5,682,219	5,682,219	4,439,119	1,243,100
Capital outlay	1,176,803	1,176,803	581,644	595,159
Transfers to Employee Benefits Fund	<u>50,000</u>	<u>50,000</u>	<u>–</u>	<u>50,000</u>
Total expenditures	<u>17,287,201</u>	<u>17,287,201</u>	<u>13,787,932</u>	<u>3,499,269</u>
Excess of revenue over (under) expenditures	(1,370,761)	(1,370,761)	(466,509)	904,252
Fund balance, beginning of year	<u>2,020,511</u>	<u>2,020,511</u>	<u>868,306</u>	<u>(1,152,205)</u>
Fund balance, end of year	<u>\$ 649,750</u>	<u>\$ 649,750</u>	<u>\$ 401,797</u>	<u>\$ (247,953)</u>

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

EMPLOYEE BENEFITS FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – BUDGET AND ACTUAL – BUDGETARY BASIS**

Year ended December 31, 2019

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance With Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 550,000	\$ 550,000	\$ 534,680	\$ (15,320)
Transfers from operations and maintenance fund	<u>50,000</u>	<u>50,000</u>	<u>—</u>	<u>(50,000)</u>
Total revenues	600,000	600,000	534,680	(65,320)
Expenditures – Employee benefits	<u>600,000</u>	<u>600,000</u>	<u>534,680</u>	<u>65,320</u>
Excess of revenue over (under) expenditures	—	—	—	—
Fund balance, beginning of year	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
Fund balance, end of year	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

DEBT SERVICE FUND

**SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND
BALANCES – BUDGET AND ACTUAL – BUDGETARY BASIS**

Year ended December 31, 2019

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues - Taxes	<u>\$ 488,201</u>	<u>\$ 488,201</u>	<u>\$ 474,836</u>	<u>\$ (13,365)</u>
Expenditures:				
Principal payments on bonds	<u>530,000</u>	<u>530,000</u>	<u>515,000</u>	<u>15,000</u>
Interest payments bonds	<u>178,000</u>	<u>178,000</u>	<u>38,150</u>	<u>139,850</u>
Total expenditures	<u>708,000</u>	<u>708,000</u>	<u>553,150</u>	<u>154,850</u>
Excess of revenue over (under) expenditures	<u>(219,799)</u>	<u>(219,799)</u>	<u>(78,314)</u>	<u>141,485</u>
Fund balance, beginning of year	<u>249,725</u>	<u>249,725</u>	<u>785,977</u>	<u>536,252</u>
Fund balance, end of year	<u><u>\$ 29,926</u></u>	<u><u>\$ 29,926</u></u>	<u><u>\$ 707,663</u></u>	<u><u>\$ 677,737</u></u>

ARTESIAN VALLEY HEALTH SYSTEM
a/k/a MEADE HOSPITAL DISTRICT
SCHEDULE OF PATIENT SERVICE REVENUE

Year ended December 31,						
2019			2018			
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Adults and pediatrics	\$ 615,915	\$ 475,786	\$ 1,091,701	\$ 512,078	\$ 399,939	\$ 912,017
Swing beds	99,189	–	99,189	74,230	–	74,230
Long-term care unit	2,772,692	–	2,772,692	2,506,521	–	2,506,521
Operating room	327,700	847,662	1,175,362	391,735	578,172	969,907
Anesthesiology	70,604	146,569	217,173	90,126	148,049	238,175
Radiology	133,675	2,044,420	2,178,095	119,562	1,877,728	1,997,290
Laboratory	305,970	1,649,226	1,955,196	268,256	1,567,025	1,835,281
Respiratory therapy	335,838	166,040	501,878	276,522	131,230	407,752
Physical therapy	86,634	1,025,165	1,111,799	63,675	746,907	810,582
Cardiac rehabilitation	–	29,700	29,700	–	26,252	26,252
Electrocardiology	7,380	108,679	116,059	12,177	94,099	106,276
Medical supplies	649,031	258,884	907,915	835,666	244,774	1,080,440
Pharmacy	304,834	363,086	667,920	308,214	429,940	738,154
Friend care	–	48,612	48,612	–	45,603	45,603
Home medical equipment	–	151,501	151,501	–	255,815	255,815
Emergency room	4,477	546,720	551,197	7,231	471,064	478,295
Rural health clinic	–	1,447,667	1,447,667	–	1,269,634	1,269,634
	<u>\$ 5,713,939</u>	<u>\$ 9,309,717</u>	15,023,656	<u>\$ 5,465,993</u>	<u>\$ 8,286,231</u>	13,752,224
Contractual adjustments			(2,271,021)			(1,034,782)
Charity care			(28,466)			(58,915)
Bad debts			<u>(592,904)</u>			<u>(404,624)</u>
Net patient service revenue			<u>\$ 12,131,265</u>			<u>\$ 12,253,903</u>

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

SCHEDULE OF OPERATING EXPENSES BY FUNCTIONAL DIVISION

Department	Year ended December 31, 2019							Percent of total operating expenses
	Salaries	Employee benefits	Purchased services	Medical supplies and drugs	Other supplies/expense	Depreciation and Amortization	Total	
Routine service:								
Adult and pediatrics	\$ 948,609	\$ —	\$ 121,345	\$ —	\$ 141,418	\$ 22,639	\$ 1,234,011	8.64 %
Long-term care unit	1,821,764	—	384,716	25,100	385,918	13,801	2,631,299	18.45
	<u>2,770,373</u>	<u>—</u>	<u>506,061</u>	<u>25,100</u>	<u>527,336</u>	<u>36,440</u>	<u>3,865,310</u>	<u>27.09</u>
Ancillary services:								
Operating room	177,309	—	49,200	—	112,704	35,286	374,499	2.63
Anesthesiology	—	—	218,485	—	1,071	—	219,556	1.54
Radiology	276,710	—	—	—	170,558	61,094	508,362	3.57
Laboratory	279,769	—	—	—	462,547	32,695	775,011	5.44
Respiratory therapy	141,098	—	—	5,042	19,514	1,204	166,858	1.17
Physical therapy	299,827	—	—	—	10,566	1,136	311,529	2.18
Cardiac rehabilitation	13,560	—	—	—	2,027	—	15,587	0.11
Electrocardiology	—	—	—	—	—	—	0	0.00
Medical supplies	64,979	—	—	486,787	—	—	551,766	3.87
Pharmacy	131,054	—	—	299,125	—	5	430,184	3.02
Friend care	80,861	—	—	—	11,587	15	92,463	0.65
Home medical equipment	32,439	—	—	36,077	—	—	68,516	0.48
Emergency room	142,364	—	25,949	—	4,334	3,757	176,404	1.24
Rural health clinic	1,389,946	—	—	18,180	159,725	943	1,568,794	11.00
	<u>3,029,916</u>	<u>—</u>	<u>293,634</u>	<u>845,211</u>	<u>954,633</u>	<u>136,135</u>	<u>5,259,529</u>	<u>36.90</u>
General services:								
Administration and general	1,101,231	—	51,876	521	764,993	11,491	1,930,112	13.54
Operation of plant	128,976	—	—	—	232,861	3,238	365,075	2.56
Laundry	29,329	—	—	—	18,092	3,867	51,288	0.36
Housekeeping	144,038	—	—	—	24,968	—	169,006	1.19
Dietary	145,914	—	6,607	—	57,710	2,056	212,287	1.49
Nursing administration	10,396	—	—	—	820	11	11,227	0.08
Medical records	120,525	—	—	—	125,754	35,324	281,603	1.97
Fitness	3,946	—	—	—	2,942	—	6,888	0.05
Employee benefits	—	1,817,205	—	—	—	—	1,817,205	12.74
Deferred loss amortization	—	—	—	—	—	8,723	8,723	0.06
Depreciation - building	—	—	—	—	—	280,572	280,572	1.97
	<u>1,684,355</u>	<u>1,817,205</u>	<u>58,483</u>	<u>521</u>	<u>1,228,140</u>	<u>345,282</u>	<u>5,133,986</u>	<u>36.01</u>
	<u>\$ 7,484,644</u>	<u>\$ 1,817,205</u>	<u>\$ 858,178</u>	<u>\$ 870,832</u>	<u>\$ 2,710,109</u>	<u>\$ 517,857</u>	<u>\$ 14,258,825</u>	<u>100.00 %</u>

Year ended December 31, 2018								
Department	Salaries	Employee benefits	Purchased services	Medical supplies and drugs	Other supplies/expense	Depreciation and Amortization	Total	Percent of total operating expenses
Routine service:								
Adult and pediatrics	\$ 1,093,158	\$ –	\$ 788	\$ –	\$ 196,291	\$ 28,215	\$ 1,318,452	8.52 %
Long-term care unit	2,022,109	–	76,471	21,245	373,026	53,972	2,546,823	16.48
	<u>3,115,267</u>	<u>–</u>	<u>77,259</u>	<u>21,245</u>	<u>569,317</u>	<u>82,187</u>	<u>3,865,275</u>	<u>25.00</u>
Ancillary services:								
Operating room	167,655	–	69,227	–	99,226	42,364	378,472	2.45
Anesthesiology	–	–	240,339	–	3,328	–	243,667	1.58
Radiology	267,837	–	–	–	173,547	59,551	500,935	3.24
Laboratory	327,358	–	–	–	508,807	31,631	867,796	5.62
Respiratory therapy	161,636	–	–	4,742	21,063	1,204	188,645	1.22
Physical therapy	329,451	–	–	–	25,229	3,007	357,687	2.32
Cardiac rehabilitation	10,834	–	–	–	3,949	–	14,783	0.10
Electrocardiology	–	–	–	–	116	–	116	0.00
Medical supplies	79,141	–	–	614,359	–	–	693,500	4.49
Pharmacy	117,174	–	1,812	242,500	–	28	361,514	2.34
Home health	83,437	–	–	–	12,165	85	95,687	0.62
Home medical equipment	47,191	–	–	50,024	1,191	–	98,406	0.64
Emergency room	136,308	–	73,714	–	3,651	3,995	217,668	1.41
Rural health clinic	1,289,460	–	53,100	10,607	177,211	14,284	1,544,662	10.00
	<u>3,017,482</u>	<u>–</u>	<u>438,192</u>	<u>922,232</u>	<u>1,029,483</u>	<u>156,149</u>	<u>5,563,538</u>	<u>36.03</u>
General services:								
Administration and general	1,008,493	–	172,665	8,124	968,290	11,667	2,169,239	14.04
Operation of plant	102,630	–	–	–	289,251	3,238	395,119	2.56
Laundry	61,123	–	–	–	22,281	5,886	89,290	0.58
Housekeeping	142,742	–	–	–	25,168	–	167,910	1.09
Dietary	161,224	–	6,542	–	61,054	6,160	234,980	1.52
Nursing administration	79,134	–	115,433	–	3,876	63	198,506	1.28
Medical records	128,625	–	11,225	–	134,731	42,432	317,013	2.05
Fitness	3,661	–	–	–	5,705	606	9,972	0.06
Employee benefits	–	2,081,495	–	–	–	–	2,081,495	13.47
Deferred loss amortization	–	–	–	–	–	11,227	11,227	0.07
Depreciation - building	–	–	–	–	–	346,893	346,893	2.25
	<u>1,687,632</u>	<u>2,081,495</u>	<u>305,865</u>	<u>8,124</u>	<u>1,510,356</u>	<u>428,172</u>	<u>6,021,644</u>	<u>38.97</u>
	<u>\$ 7,820,381</u>	<u>\$ 2,081,495</u>	<u>\$ 821,316</u>	<u>\$ 951,601</u>	<u>\$ 3,109,156</u>	<u>\$ 666,508</u>	<u>\$ 15,450,457</u>	<u>100.00 %</u>