

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

FINANCIAL STATEMENTS

and

ADDITIONAL INFORMATION

with

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2021 AND 2020

GBN, P.A.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

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

Opinions

We have audited the accompanying financial statements of Artesian Valley Health System a/k/a Meade Hospital District (the System) as of and for the years ended December 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Artesian Valley Health System a/k/a Meade Hospital District, as of December 31, 2021 and 2020, and the changes in financial position, and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the Hospital, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital'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 opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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

- Exercise professional judgment 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 the Hospital'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 judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Hospital'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 matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on pages 3 through 7 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.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Artesian Valley Health System a/k/a Meade Hospital District basic financial statements. The supplementary schedules as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audits of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

GBN, P.A.

Wichita, Kansas
October 12, 2022

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, 2021 and 2020. Please read it in conjunction with the System's financial statements, which begin on page 8.

Financial Highlights

- The System's net position increased in 2021 by \$69,111 or 1.99% compared to an increase in 2020 of \$1,438,710 or 70.72%.
- Contractual allowances, charity care and bad debts reduced gross patient service revenue by \$3,228,501 or 19.40% of gross patient service revenue in 2021 and by \$2,870,714 or 17.89% of gross patient service revenue in 2020.
- The System reported an operating loss in both 2021 (\$3,200,550) and 2020 (\$2,472,436). The operating loss in 2021 increased by \$728,114 or 29.45% from the loss reported in 2020. The operating loss in 2020 decreased by \$409,193 or 19.83% from the loss reported in 2019.
- Net nonoperating revenues/expenses decreased by \$641,485 or 16.40% in 2021 compared to an increase in 2020 of \$1,823,778 or 87.37%. The significant increase in 2020 was due primarily to the recognition of certain federal, state, and other grants related to the COVID-19 pandemic.

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, 2021, 2020 and 2019.

	December 31,		
	2021	2020	2019
Assets:			
Current assets	\$ 8,176,038	\$ 10,722,122	\$ 5,827,518
Capital assets, net	<u>3,769,075</u>	<u>3,278,996</u>	<u>3,012,747</u>
Total assets	<u>\$ 11,945,113</u>	<u>\$ 14,001,118</u>	<u>\$ 8,840,265</u>
Deferred outflows of resources:			
Loss on refunding	<u>\$ 253</u>	<u>\$ 3,508</u>	<u>\$ 9,583</u>
Liabilities:			
Non-current liabilities	\$ 585,713	\$ 1,253,472	\$ 1,489,460
Other liabilities	<u>5,794,084</u>	<u>7,264,776</u>	<u>3,415,202</u>
Total liabilities	<u>\$ 6,379,797</u>	<u>\$ 8,518,248</u>	<u>\$ 4,904,662</u>
Deferred inflows of resources:			
Deferred property taxes receivable	<u>\$ 2,023,397</u>	<u>\$ 2,013,317</u>	<u>\$ 1,910,835</u>
Net position:			
Invested in capital assets, net	\$ 2,539,453	\$ 1,400,686	\$ 930,408
Restricted	653,145	676,627	760,413
Unrestricted	<u>349,574</u>	<u>1,395,748</u>	<u>343,530</u>
Total net position	<u>\$ 3,542,172</u>	<u>\$ 3,473,061</u>	<u>\$ 2,034,351</u>

Beginning early in 2020, the System, along with all healthcare providers in the United States of America (U.S.), was significantly impacted by the worldwide coronavirus pandemic (COVID-19). Patient volumes and related revenues were negatively impacted during the early months of the pandemic as elective procedures were suspended and citizens were concerned about visiting healthcare facilities. In response, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) and other subsequent legislation has provided funding to assist healthcare providers continuing operation during these uncertain times. The System obtained a loan from the Small Business Administration (SBA) under the Paycheck Protection Program (PPP) and several significant grants from federal, state, and other sources to prevent, prepare for, and respond to the pandemic.

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, 2021, 2020 and 2019.

	Year ended December 31,		
	2021	2020	2019
Operating revenue	\$ 13,434,537	\$ 13,221,973	\$ 12,195,582
Operating expenses:			
Salaries	7,652,045	7,351,539	7,484,644
Employee benefits	2,032,375	1,943,715	1,817,205
Supplies and other	6,392,344	5,903,973	4,439,119
Depreciation and amortization	558,323	495,182	517,857
Total operating expenses	16,635,087	15,694,409	14,258,825
Operating loss	(3,200,550)	(2,472,436)	(2,063,243)
Nonoperating revenues (expenses):			
Taxes	\$ 2,019,051	\$ 1,922,869	\$ 1,822,079
Investment income	23,553	34,628	14,645
COVID-19 grant revenue	1,154,097	1,881,001	—
Interest expense	(37,140)	(44,616)	(47,989)
Grants and contributions	13,352	18,362	48,058
Other, net	96,748	98,902	250,575
Total nonoperating revenues (expenses)	3,269,661	3,911,146	2,087,368
Increase in net position	\$ 69,111	\$ 1,438,710	\$ 24,125
Net position at end of year	\$ 3,542,172	\$ 3,473,061	\$ 2,034,351

Overall, operating revenues increased 1.61% from 2020 to 2021 and increased 8.42% from 2019 to 2020.

- Net patient service revenue increased 1.75% from 2020 to 2021 as compared to an increase of 8.63% from 2019 to 2020.
- Tax revenue increased 5.00% from 2020 to 2021 as compared to an increase of 5.53% from 2019 to 2020. The 2021 ad valorem tax mill rate increased 2.292 mills over the amount for 2020. This was due primarily to a decrease in the assessed valuation of approximately 6.3 million for 2021 when compared to 2020. The 2020 ad valorem tax mill rate decreased 0.206 mills compared to 2019.

Overall, operating expenses increased 5.99% from 2020 to 2021 and increased 10.07% from 2019 to 2020.

- Salaries, wages, and employee benefits increased 4.19% from 2020 to 2021 and decreased 0.07% from 2019 to 2020.
- Full-time equivalent employees increased by 1.19 or 0.80% from 2020 to 2021 as compared to a decrease of 12.86 or 8.00% from 2019 to 2020.
- Depreciation expense increased 12.75% from 2020 to 2021 compared to a decrease of 4.38% from 2019 to 2020. The increase in 2021 was due primarily to certain fixed and movable equipment items that were placed in service in 2020 and 2021.

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>2021</u>	<u>2020</u>	<u>2019</u>
Inpatient acute days	623	610	632
Observation bed days	<u>123</u>	<u>158</u>	<u>225</u>
	<u>746</u>	<u>768</u>	<u>857</u>
Percent change	<u>(2.86)%</u>	<u>(10.39)%</u>	<u>20.37%</u>
Swing bed days	<u>242</u>	<u>385</u>	<u>310</u>
Percent change	<u>(37.14)%</u>	<u>24.19%</u>	<u>35.37%</u>
LTCU days	<u>12,036</u>	<u>12,541</u>	<u>12,577</u>
Percent change	<u>(4.03)%</u>	<u>(0.29)%</u>	<u>5.93%</u>
RHC visits	<u>9,955</u>	<u>9,677</u>	<u>10,046</u>
Percent change	<u>2.87%</u>	<u>(3.67)%</u>	<u>11.82%</u>

Capital Assets

At the end of 2021, the System had \$3,769,075 invested in capital assets, net of accumulated depreciation, as detailed in Note 9 to the financial statements.

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 equipment under capital lease agreements (including new leases totaling \$450,000 acquired in 2020) with a remaining outstanding balance of \$365,944 at December 31, 2021.

Other Economic Factors

The estimated assessed valuation for the System for 2022 is \$98,237,464 which is an increase of \$2,061,233 compared to the 2021 final assessed valuation amount of \$96,176,231. The total ad valorem taxes levied for 2022 was \$2,023,397 compared to \$2,024,384 for 2021.

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>2021</u>	<u>2020</u>
Current assets:		
Cash – Unrestricted (Notes 1 and 3)	\$ 3,470,646	\$ 6,061,867
Cash – Restricted (Notes 1 and 3)	653,145	676,626
Accounts receivable, net of allowance for doubtful accounts of \$1,410,120 in 2021 and \$1,754,587 in 2020	1,516,438	1,480,071
Property taxes receivable (Note 1)	2,023,397	2,013,317
Estimated third-party payer settlements (Note 2)	–	–
Inventories (Note 1)	434,842	357,093
Prepaid expenses	<u>77,570</u>	<u>133,148</u>
Total current assets	<u>8,176,038</u>	<u>10,722,122</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	7,914,641	7,914,641
Movable equipment	8,342,855	7,694,945
Projects in progress	<u>632,989</u>	<u>235,752</u>
Total property and equipment	18,268,923	17,223,776
Less accumulated depreciation	<u>14,499,848</u>	<u>13,944,780</u>
Net property and equipment	<u>3,769,075</u>	<u>3,278,996</u>
Total assets	<u>11,945,113</u>	<u>14,001,118</u>
Deferred outflows of resources – Deferred refunding costs – net of accumulated amortization of \$77,776 in 2021 and \$73,698 in 2020 (Notes 1 and 4)	<u>253</u>	<u>3,508</u>
Total assets and deferred outflows of resources	<u>\$ 11,945,366</u>	<u>\$ 14,004,626</u>

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	<u>December 31,</u>	
	<u>2021</u>	<u>2020</u>
Current liabilities:		
Accounts payable	\$ 934,377	\$ 360,487
Salaries and payroll taxes payable	264,459	229,157
Estimated third-party payer settlements (Note 2)	601,877	1,359,488
PPP loan payable	1,188,153	1,348,646
Unearned COVID-19 grant revenue (Note 11)	1,352,290	2,588,579
Current portion of compensated absences payable (Note 1)	776,658	713,292
Current portion of long-term debt (Note 4)	670,401	654,559
Accrued interest payable	<u>5,869</u>	<u>10,568</u>
Total current liabilities	<u>5,794,084</u>	<u>7,264,776</u>
Non-current liabilities:		
Long-term debt (Note 4)	553,352	1,223,752
Compensated absences payable (Note 1)	<u>32,361</u>	<u>29,720</u>
Total non-current liabilities	<u>585,713</u>	<u>1,253,472</u>
Total liabilities	<u>6,379,797</u>	<u>8,518,248</u>
Deferred inflows of resources:		
Deferred property taxes receivable (Note 1)	<u>2,023,397</u>	<u>2,013,317</u>
Net position (Notes 1 and 7):		
Net investment in capital assets	2,539,453	1,400,686
Restricted – expendable for specific operating activities	653,145	676,626
Unrestricted	<u>349,574</u>	<u>1,395,749</u>
Total net position	<u>3,542,172</u>	<u>3,473,061</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 11,945,366</u>	<u>\$ 14,004,626</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>2021</u>	<u>2020</u>
Operating revenues:		
Net patient service revenue (Note 1)	\$ 13,409,189	\$ 13,178,337
Other	<u>25,348</u>	<u>43,636</u>
Total operating revenues	<u>13,434,537</u>	<u>13,221,973</u>
Operating expenses:		
Salaries	7,652,045	7,351,539
Employee benefits	2,032,375	1,943,715
Purchased services	1,985,957	1,703,728
Medical supplies and drugs	941,366	841,609
Other supplies and expense	3,465,021	3,358,636
Depreciation and amortization	<u>558,323</u>	<u>495,182</u>
Total operating expenses	<u>16,635,087</u>	<u>15,694,409</u>
Operating loss	<u>(3,200,550)</u>	<u>(2,472,436)</u>
Nonoperating revenues (expenses):		
Taxes for operations	1,479,904	1,453,228
Taxes for debt service	539,147	469,641
Investment income	23,553	34,628
CARES act grant revenue (Note 11)	1,154,097	1,881,001
Interest expense	(37,140)	(44,616)
Noncapital contributions	13,352	18,362
Other	<u>96,748</u>	<u>98,902</u>
Total nonoperating revenues	<u>3,269,661</u>	<u>3,911,146</u>
Increase in net position	69,111	1,438,710
Net position at beginning of year	<u>3,473,061</u>	<u>2,034,351</u>
Net position at end of year	<u>\$ 3,542,172</u>	<u>\$ 3,473,061</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>2021</u>	<u>2020</u>
Cash flows from operating activities:		
Receipts from and on behalf of patients	\$ 12,615,211	\$ 13,579,340
Payments to suppliers and contractors	(5,840,625)	(5,922,244)
Payments to and on behalf of employees	(9,583,111)	(9,264,574)
Other receipts and payments, net	<u>25,348</u>	<u>43,636</u>
Net cash flows used by operating activities	<u>(2,783,177)</u>	<u>(1,563,842)</u>
Cash flows from noncapital financing activities:		
Property taxes for operations	1,479,904	1,453,228
Contributions	13,352	18,362
Change in COVID-19 grant funds	(82,192)	4,469,580
Change in PPP loan	(160,493)	1,348,646
Other	<u>96,748</u>	<u>98,902</u>
Net cash flows provided by noncapital financing activities	<u>1,347,319</u>	<u>7,388,718</u>
Cash flows from capital and related financing activities:		
Property taxes for debt service	539,147	469,641
Principal payments on long-term debt	(652,330)	(649,849)
Interest paid on long-term debt	(44,067)	(53,325)
Purchases of capital assets	<u>(1,045,147)</u>	<u>(305,356)</u>
Net cash flows provided (used) by capital and related financing activities	<u>(1,202,397)</u>	<u>(538,889)</u>
Cash flows provided by investing activities – Investment income	<u>23,553</u>	<u>34,628</u>
Net increase in cash and cash equivalents	(2,614,702)	5,320,615
Cash and cash equivalents at beginning of year	<u>6,738,493</u>	<u>1,417,878</u>
Cash and cash equivalents at end of year	<u>\$ 4,123,791</u>	<u>\$ 6,738,493</u>
Reconciliation of cash and cash equivalents to the Balance Sheets:		
Cash	\$ 3,470,646	\$ 6,061,867
Restricted cash	<u>653,145</u>	<u>676,626</u>
	<u>\$ 4,123,791</u>	<u>\$ 6,738,493</u>

	<u>Year ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	\$ (3,200,550)	\$ (2,472,436)
Adjustments to reconcile operating loss to net cash flows used in operating activities:		
Depreciation and amortization	558,323	495,182
Provision for doubtful accounts	209,438	344,749
Deferred inflows of property taxes receivable	10,080	102,482
Net (increases) decreases in current assets:		
Accounts receivable	(245,805)	278,115
Property taxes receivable	(10,080)	(102,482)
Inventories	(77,749)	(39,697)
Other current assets	55,578	(54,674)
Net increases (decreases) in current liabilities:		
Accounts payable	569,191	71,570
Salaries and wages payable	35,302	(16,955)
Compensation absences payable	66,007	47,635
Estimated third-party payor settlements	(757,611)	(221,861)
Accrued interest payable	<u>4,699</u>	<u>4,530</u>
Net cash used by operating activities	<u>\$ (2,783,177)</u>	<u>\$ (1,563,842)</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, 2021 and 2020

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, and physician clinic 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 \$23,023 and \$38,168 of charity care for the years ended December 31, 2021 and 2020, 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, 2021 and 2020. 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:

	Operation and Maintenance Fund	Employee Benefit Fund	Debt Service Fund
GAAP basis net position at December 31, 2021	\$ 2,962,910	\$ —	\$ 591,851
Adjustments:			
Net property and equipment	(3,769,075)	—	—
Deferred loss on refunding	(253)	—	—
Accrued interest payable	5,985	—	—
Net long-term debt	1,211,046	—	—
Budgetary basis fund balance at December 31, 2021	<u>\$ 410,413</u>	<u>\$ —</u>	<u>\$ 591,851</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 System 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 System reports amounts related to property taxes receivable on the statements of net position as a deferred inflow of resources.

Taxation

The System 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 System 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 2020 financial statements to conform to the 2021 presentation. These other reclassifications had no effect on the change in net position.

Subsequent events

Subsequent events have been evaluated through October 12, 2022, 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 System 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 System is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the System 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 March 31, 2022. Starting April 1, 2022 through June 30, 2022 a 1% sequestration will in effect. Effective July 1, 2022 the full sequestration percentage will resume at 2%.

- **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 38% and 44% of net patient service revenue is from participation in the Medicare program for the years ended December 31, 2021 and 2020, 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, 2021 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 \$4,123,521 with the bank balances of such accounts being \$4,237,750. Of the bank balances, \$587,599 was secured by federal depository insurance and the remaining balance of \$3,650,151 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 \$6,518,316 at December 31, 2021. The remaining carrying amount of the System's cash and investments at December 31, 2021 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, 2021 and 2020:

	Balance At December 31, 2020	Additions	Reductions	Balance At December 31, 2021	Amounts Due Within One Year
Bonds and capital lease obligations:					
General obligation bonds	\$ 1,120,000	\$ —	\$ 550,000	\$ 570,000	\$ 570,000
Premium on bonds	2,401	—	2,228	173	173
Revenue bonds	317,652	—	30,016	287,636	31,217
Capital lease obligations	<u>438,258</u>	<u>—</u>	<u>72,314</u>	<u>365,944</u>	<u>69,011</u>
	<u>1,878,311</u>	<u>—</u>	<u>654,558</u>	<u>1,223,753</u>	<u>670,401</u>
Other liabilities:					
Compensated absences payable	<u>743,012</u>	<u>710,169</u>	<u>644,162</u>	<u>809,019</u>	<u>776,658</u>
Total noncurrent liabilities	<u>\$ 2,621,323</u>	<u>\$ 710,169</u>	<u>\$ 1,298,720</u>	<u>\$ 2,032,772</u>	<u>\$ 1,447,059</u>

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

	Balance At December 31, 2019	Additions	Reductions	Balance At December 31, 2020	Amounts Due Within One Year
Bonds and capital lease obligations:					
General obligation bonds	\$ 1,650,000	\$ —	\$ 530,000	\$ 1,120,000	\$ 550,000
Premium on bonds	6,580	—	4,179	2,401	2,229
Revenue bonds	346,514	—	28,862	317,653	30,016
Capital lease obligations	<u>79,245</u>	<u>450,000</u>	<u>90,987</u>	<u>438,258</u>	<u>72,314</u>
	<u>2,082,339</u>	<u>450,000</u>	<u>654,028</u>	<u>1,878,311</u>	<u>654,559</u>
Other liabilities:					
Compensated absences payable	<u>695,377</u>	<u>729,986</u>	<u>682,351</u>	<u>743,012</u>	<u>713,292</u>
Total noncurrent liabilities	<u>\$ 2,777,716</u>	<u>\$ 1,179,986</u>	<u>\$ 1,336,379</u>	<u>\$ 2,621,323</u>	<u>\$ 1,367,851</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 \$10,088 and \$19,105 for 2021 and 2020, 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:

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
Year ending December 31: 2022	<u>\$ 570,000</u>	<u>\$ 5,700</u>	<u>\$ 575,700</u>

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.

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

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:			
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	<u>41,078</u>	<u>1,644</u>	<u>42,722</u>
	<u>\$ 287,636</u>	<u>\$ 54,140</u>	<u>\$ 341,776</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.

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.

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

Capital lease obligations

The System leases certain medical equipment under capital lease agreements including new leases totaling \$450,000 in 2020. Interest expense under the capital lease agreements was \$14,463 and \$11,763 for the years ended December 31, 2021 and 2020, 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,	
	2021	2020
Movable equipment	\$ 515,000	\$ 740,400
Accumulated depreciation	(167,092)	(282,528)
	<u>\$ 369,670</u>	<u>\$ 457,872</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, 2021:

Year ending December 31,	
2022	\$ 80,957
2023	72,809
2024	72,809
2025	72,809
2026	72,809
2027	30,338
Total minimum lease payments	402,531
Less amount representing interest	<u>36,587</u>
Present value of net minimum lease payments	<u>\$ 365,944</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 \$710,1344 and \$646,556 for the years ended December 31, 2021 and 2020.

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,	
	2021	2020
Medicare	\$ 712,494	\$ 897,764
Medicaid	156,598	27,251
Commercial	1,404,831	1,563,272
Private pay	<u>652,635</u>	<u>746,371</u>
Gross accounts receivable	2,926,558	3,234,658
Less allowance for doubtful accounts	<u>1,410,120</u>	<u>1,754,587</u>
	<u>\$ 1,516,438</u>	<u>\$ 1,480,071</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, 2021, is as follows:

Fowler State Bank	83%
Plains State Bank	15%
Meade State Bank	2%

7. RESTRICTED NET POSITION

Activity relating to restricted net position for the years ending December 31, 2021 and 2020 is as follows:

	Balance At December 31, 2020	Additions	Assets Released	Balance At December 31, 2021
Debt service for general obligation bonds	\$ 619,604	\$ 539,147	\$ 566,900	\$ 591,851
Debt service for revenue bonds	3,560	42,722	42,722	3,560
Reserve for revenue bonds	25,988	4,272	—	30,260
Reserve for revenue bonds - USDA	27,474	—	—	27,474
Employee benefits	—	<u>553,302</u>	<u>553,302</u>	—
	<u>\$ 676,626</u>	<u>\$ 1,139,443</u>	<u>\$ 1,162,924</u>	<u>\$ 653,145</u>
	Balance At December 31, 2019	Additions	Assets Released	Balance At December 31, 2020
Debt service for general obligation bonds	\$ 707,663	\$ 469,641	\$ 557,700	\$ 619,604
Debt service for revenue bonds	3,560	42,722	42,722	3,560
Reserve for revenue bonds	21,716	4,272	—	25,988
Reserve for revenue bonds - USDA	27,474	—	—	27,474
Employee benefits	—	<u>517,818</u>	<u>517,818</u>	—
	<u>\$ 760,413</u>	<u>\$ 1,034,454</u>	<u>\$ 1,118,240</u>	<u>\$ 676,626</u>

8. OTHER POST EMPLOYMENT BENEFITS

As provided by K.S.A. 12-5040, the System 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 System 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 System 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 System under this plan.

9. CAPITAL ASSETS

Capital asset additions, disposals, and balances for the years ended December 31, 2021 and 2020 were as follows:

	Balance At December 31, 2020	Additions	Disposals	Balance At December 31, 2021
Capital assets not being depreciated:				
Land	\$ 86,142	\$ —	\$ —	\$ 86,142
Projects in progress	<u>235,752</u>	<u>397,237</u>	<u>—</u>	<u>632,989</u>
	<u>321,894</u>	<u>397,237</u>	<u>—</u>	<u>719,131</u>
Capital assets being depreciated:				
Land				
improvements	1,292,296	—	—	1,292,296
Buildings and fixed equipment	7,914,641	—	—	7,914,641
Movable equipment	<u>7,694,945</u>	<u>647,910</u>	<u>—</u>	<u>8,342,855</u>
Total capital assets being depreciated	<u>16,901,882</u>	<u>647,910</u>	<u>—</u>	<u>17,549,792</u>
Less accumulated depreciation for:				
Land				
improvements	\$ 1,004,625	\$ 46,977	\$ —	\$ 1,051,602
Buildings and fixed equipment	6,275,572	204,307	—	6,479,879
Movable equipment	<u>6,664,583</u>	<u>303,784</u>	<u>—</u>	<u>6,968,367</u>
Total accumulated depreciation	<u>13,944,780</u>	<u>555,068</u>	<u>—</u>	<u>14,499,848</u>
Total capital assets being depreciated, net	<u>2,957,102</u>	<u>92,842</u>	<u>—</u>	<u>3,049,944</u>
Total capital assets, net	<u>\$ 3,278,996</u>	<u>\$ 490,079</u>	<u>\$ —</u>	<u>\$ 3,769,075</u>

9. CAPITAL ASSETS (continued)

	Balance At December 31, 2019	Additions	Disposals	Balance At December 31, 2020
Capital assets not being depreciated:				
Land	\$ 86,142	\$ —	\$ —	\$ 86,142
Projects in progress	<u>140,000</u>	<u>95,752</u>	<u>—</u>	<u>235,752</u>
	<u>226,142</u>	<u>95,752</u>	<u>—</u>	<u>321,894</u>
Capital assets being depreciated:				
Land improvements	1,292,296	—	—	1,292,296
Buildings and fixed equipment	7,897,023	17,618	—	7,914,641
Movable equipment	<u>7,052,959</u>	<u>641,986</u>	<u>—</u>	<u>7,694,945</u>
Total capital assets being depreciated	<u>16,242,278</u>	<u>659,604</u>	<u>—</u>	<u>16,901,882</u>
Less accumulated depreciation for:				
Land improvements	\$ 957,529	\$ 47,096	\$ —	\$ 1,004,625
Buildings and fixed equipment	6,067,305	208,267	—	6,275,572
Movable equipment	<u>6,430,839</u>	<u>233,744</u>	<u>—</u>	<u>6,664,583</u>
Total accumulated depreciation	<u>13,455,673</u>	<u>489,107</u>	<u>—</u>	<u>13,944,780</u>
Total capital assets being depreciated, net	<u>2,786,605</u>	<u>170,497</u>	<u>—</u>	<u>2,957,102</u>
Total capital assets, net	<u>\$ 3,012,747</u>	<u>\$ 266,249</u>	<u>\$ —</u>	<u>\$ 3,278,996</u>

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.

10. CONTINGENCIES (continued)

Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the 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. COVID-19 GLOBAL PANDEMIC PROGRAMS

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 of America (U.S.). 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 and on March 13, 2020 the President of the U.S. declared an emergency under sections 201 and 301 of the National Emergencies Act. Since this declaration the System has operated within the guidelines provided by both state and federal regulatory agencies. In addition, many state and local governments instituted emergency restrictions that substantially limited the operation of non-essential businesses and the activities of individuals. Certain of the restrictions have continued, or elapsed, or have been reinstated for periods in 2021 and 2022. As a result, business continuity, including supply chains and consumer demand across a broad range of industries and countries, were and may continue to be impacted as governments and their citizens take significant and unprecedented measures to mitigate the consequences of the pandemic.

In response to the pandemic, federal and state governments have enacted various programs to provide direct funds to health care providers, businesses, and the general public to assist during the duration of the pandemic. The System has received several grants totaling approximately \$5.7 million over the past two years to assist in managing the additional costs and disruptions in normal operations incurred as a result of the pandemic. The terms and conditions associated with accepting the funds have certain requirements for use of the funds that must be met in order to retain these funds. Certain of these programs require the recipients to file reports with the grantors regarding the use of these funds. Any unused or inappropriate expenditure of these funds may be required to be returned to the grantor.

The System considers receipt of the funds as a voluntary nonexchange transaction for accounting and reporting purposes. The grant funds are initially recorded as unearned revenue (liability) on the financial statements. The liability is being derecognized and nonoperating revenue recognized, as the eligible requirements are determined to be met by the System. The following table provides information about the activities regarding the use of the funds:

	<u>Year Ended December 31,</u>	
	<u>2021</u>	<u>2020</u>
Refundable advances at beginning of year	\$ 2,588,580	\$ —
Provider relief funds received	769,039	4,082,415
Rural health clinic testing/mitigation funds received	200,000	98,923
Nursing home infection control funds received	—	185,243
Other funds received	305,406	103,000
Provider relief funds utilized	(995,343)	(1,778,001)
Rural health clinic testing/mitigation funds utilized	(57,161)	—
Nursing home infection control funds utilized	(101,594)	—
Other funds utilized	—	(103,000)
Funds returned to grantor agencies	<u>(1,356,637)</u>	<u>—</u>
Refundable advances at end of year	<u>\$ 1,352,290</u>	<u>\$ 2,588,580</u>

11. COVID-19 GLOBAL PANDEMIC PROGRAMS (continued)

Additionally, the System 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 enacted in April of 2020. If the System meets certain conditions under the program, all or part of the loan will be forgiven. Subsequent to year end, the System received notice from the SBA that it has met the requirements for loan forgiveness under the program. Accordingly, the loan was forgiven in 2022 and grant revenue will be recorded for the full amount of \$1,348,646 for the year ended December 31, 2022.

Since the inception of these programs, the reporting guidance has continued to evolve and change, including significant changes affecting the guidance that had been applicable when the funds were initially received. For financial reporting purposes, the System has determined these continuing changes, even those that have occurred since year-end, to be on-going clarifications and has utilized the most current published reporting guidance up to the date the financial statements were issued to determine the appropriate classification of these funds in the financial statements. The laws and regulations associated with these funds are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates may change by a material amount in the near term.

12. SUBSEQUENT EVENTS

The spread of the COVID-19 coronavirus has resulted in economic uncertainties which may negatively affect the financial position, results of operations and cash flows of the System. The System is unable to estimate the length of time or the financial effects the pandemic will have on operations.

The System has evaluated subsequent events through the date of the independent auditor's report, which is the date the financial statements were available to be issued.

SUPPLEMENTARY 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, 2021

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance With Final Budget Positive (Negative)
Revenues:				
Net patient service revenue	\$ 15,576,071	\$ 15,576,071	\$ 13,397,566	\$ (2,178,505)
Taxes	922,486	922,486	926,602	4,116
Other	<u>261,876</u>	<u>261,876</u>	<u>1,324,721</u>	<u>1,062,845</u>
Total revenues	<u>16,760,433</u>	<u>16,760,433</u>	<u>15,648,889</u>	<u>(1,111,544)</u>
Expenditures:				
Salaries	8,498,623	8,498,623	7,652,045	846,578
Employee benefits	1,326,048	1,326,048	1,479,073	(153,025)
Supplies and contractual services	6,132,022	6,132,022	6,406,807	(274,785)
Capital outlay	1,758,243	1,758,243	1,160,183	598,060
Transfers to Employee Benefits Fund	<u>50,000</u>	<u>50,000</u>	<u>–</u>	<u>50,000</u>
Total expenditures	<u>17,764,936</u>	<u>17,764,936</u>	<u>16,698,108</u>	<u>1,066,828</u>
Excess of revenue over (under) expenditures	(1,004,503)	(1,004,503)	(1,049,219)	(44,716)
Fund balance, beginning of year	<u>1,204,503</u>	<u>1,204,503</u>	<u>1,459,832</u>	<u>255,329</u>
Fund balance, end of year	<u>\$ 200,000</u>	<u>\$ 200,000</u>	<u>\$ 410,613</u>	<u>\$ (210,613)</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, 2021

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts Budgetary Basis</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues:				
Taxes	\$ 550,000	\$ 550,000	\$ 553,302	\$ 3,302
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	553,302	(46,698)
Expenditures – Employee benefits	<u>600,000</u>	<u>600,000</u>	<u>553,302</u>	<u>46,698</u>
Excess of revenue over (under) expenditures	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>
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>	<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, 2021

	<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>\$ 536,495</u>	<u>\$ 536,495</u>	<u>\$ 539,147</u>	<u>\$ 2,652</u>
Expenditures:				
Principal payments on bonds	570,000	570,000	550,000	20,000
Interest payments bonds	<u>11,400</u>	<u>11,400</u>	<u>16,900</u>	<u>(5,500)</u>
Total expenditures	<u>581,400</u>	<u>581,400</u>	<u>566,900</u>	<u>14,500</u>
Excess of revenue over (under) expenditures	(44,905)	(44,905)	(27,753)	17,152
Fund balance, beginning of year	<u>49,998</u>	<u>49,998</u>	<u>619,604</u>	<u>569,606</u>
Fund balance, end of year	<u><u>\$ 5,093</u></u>	<u><u>\$ 5,093</u></u>	<u><u>\$ 591,851</u></u>	<u><u>\$ 586,758</u></u>

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

SCHEDULE OF PATIENT SERVICE REVENUE

Year ended December 31,						
2021			2020			
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Adults and pediatrics	\$ 584,475	\$ 122,560	\$ 707,035	\$ 567,300	\$ 482,547	\$ 1,049,847
Swing beds	78,579	—	78,579	126,042	—	126,042
Long-term care unit	2,425,716	—	2,425,716	2,689,926	—	2,689,926
Operating room	296,039	896,334	1,192,373	320,488	869,866	1,190,354
Anesthesiology	115,921	424,265	540,186	117,001	348,508	465,509
Radiology	151,331	2,625,954	2,777,285	171,699	2,259,363	2,431,062
Laboratory	324,661	2,650,093	2,974,754	338,055	2,432,305	2,770,360
Respiratory therapy	557,102	332,338	889,440	268,148	107,537	375,685
Physical therapy	78,275	848,070	926,345	90,022	843,236	933,258
Cardiac rehabilitation	—	143,924	143,924	—	34,416	34,416
Electrocardiology	6,396	137,711	144,107	8,364	112,841	121,205
Medical supplies	508,554	287,552	796,106	653,972	233,924	887,896
Pharmacy	344,379	605,866	950,245	349,505	606,159	955,664
Friend care	—	11,623	11,623	—	27,392	27,392
Home medical equipment	—	—	—	—	—	—
Emergency room	7,536	598,568	606,104	8,712	630,401	639,113
Rural health clinic	—	1,467,571	1,467,571	—	1,339,821	1,339,821
Observation Bed	6,297	—	6,297	11,501	—	11,501
	<u>\$ 5,485,261</u>	<u>\$ 11,152,429</u>	<u>16,637,690</u>	<u>\$ 5,720,735</u>	<u>\$ 10,328,316</u>	<u>16,049,051</u>
Contractual adjustments			(2,996,086)			(2,487,045)
Charity care			(22,977)			(38,920)
Bad debts			<u>(209,438)</u>			<u>(344,749)</u>
Net patient service revenue			<u>\$ 13,409,189</u>			<u>\$ 13,178,337</u>

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

SCHEDULE OF OPERATING EXPENSES BY FUNCTIONAL DIVISION

Department	Year ended December 31, 2021							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	\$ 1,063,843	\$ -	\$ 143,613	\$ -	\$ 148,237	\$ 28,350	\$ 1,384,043	8.31 %
Long-term care unit	1,555,369	-	784,273	37,221	482,474	74,799	2,934,136	17.64
	<u>2,619,212</u>	<u>-</u>	<u>927,886</u>	<u>37,221</u>	<u>630,711</u>	<u>103,149</u>	<u>4,318,179</u>	<u>25.95</u>
Ancillary services:								
Operating room	238,376	-	77,126	-	148,183	43,051	506,736	3.05
Anesthesiology	-	-	353,780	-	1,784	-	355,564	2.14
Radiology	294,112	-	175	-	152,820	132,152	579,259	3.48
Laboratory	308,327	-	-	-	620,901	33,954	963,182	5.79
Respiratory therapy	131,768	-	-	8,610	38,501	9,198	188,077	1.13
Physical therapy	317,401	-	-	-	12,435	33	329,869	1.98
Cardiac rehabilitation	51,080	-	-	-	4,942	-	56,022	0.34
Electrocardiology	-	-	-	-	-	-	-	-
Medical supplies	126,498	-	-	392,699	-	934	520,131	3.13
Pharmacy	153,315	-	18,625	482,898	-	311	655,149	3.94
Friend care	16,326	-	-	-	1,831	-	18,157	0.11
Home medical equipment	-	-	-	-	-	-	-	-
Emergency room	271,486	-	147,373	-	26,270	6,132	451,261	2.71
Rural health clinic	1,448,697	-	243,924	19,938	283,091	7,953	2,003,603	12.04
	<u>3,357,386</u>	<u>-</u>	<u>841,003</u>	<u>904,145</u>	<u>1,290,758</u>	<u>233,718</u>	<u>6,627,010</u>	<u>39.84</u>
General services:								
Administration and general	1,106,334	-	212,014	-	1,021,711	10,006	2,350,065	14.13
Operation of plant	117,556	-	-	-	277,216	5,735	400,507	2.41
Laundry	-	-	-	-	14,890	3,319	18,209	0.11
Housekeeping	131,645	-	-	-	28,712	-	160,357	0.96
Dietary	179,444	-	3,495	-	40,204	1,203	224,346	1.35
Nursing administration	4,648	-	-	-	2,564	-	7,212	0.04
Medical records	135,820	-	1,559	-	157,810	5,651	300,840	1.81
Fitness	-	-	-	-	445	-	445	0.00
Employee benefits	-	2,032,375	-	-	-	-	2,032,375	12.22
Deferred loss amortization	-	-	-	-	-	3,255	3,255	0.02
Depreciation - building	-	-	-	-	-	192,287	192,287	1.16
	<u>1,675,447</u>	<u>2,032,375</u>	<u>217,068</u>	<u>-</u>	<u>1,543,552</u>	<u>221,456</u>	<u>5,689,898</u>	<u>34.21</u>
	<u>\$ 7,652,045</u>	<u>\$ 2,032,375</u>	<u>\$ 1,985,957</u>	<u>\$ 941,366</u>	<u>\$ 3,465,021</u>	<u>\$ 558,323</u>	<u>\$ 16,635,087</u>	<u>100.00 %</u>

Year ended December 31, 2020								
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	\$ 823,651	\$ —	\$ 437,770	\$ —	\$ 292,121	\$ 25,532	\$ 1,579,074	10.07 %
Long-term care unit	<u>1,625,232</u>	<u>—</u>	<u>463,761</u>	<u>28,003</u>	<u>368,822</u>	<u>65,674</u>	<u>2,551,492</u>	<u>16.26</u>
	<u>2,448,883</u>	<u>—</u>	<u>901,531</u>	<u>28,003</u>	<u>660,943</u>	<u>91,206</u>	<u>4,130,566</u>	<u>26.33</u>
Ancillary services:								
Operating room	187,929	—	96,725	—	78,864	41,835	405,353	2.58
Anesthesiology	—	—	333,490	—	2,236	—	335,726	2.14
Radiology	277,964	—	—	—	202,341	107,094	587,399	3.74
Laboratory	271,929	—	—	—	726,408	14,481	1,012,818	6.45
Respiratory therapy	141,386	—	—	5,414	44,979	355	192,134	1.22
Physical therapy	345,985	—	—	—	8,978	567	355,530	2.27
Cardiac rehabilitation	21,968	—	—	—	4,189	—	26,157	0.17
Electrocardiology	—	—	—	—	—	—	—	—
Medical supplies	68,577	—	—	519,695	—	—	588,272	3.75
Pharmacy	113,511	—	17,592	274,321	—	—	405,424	2.58
Friend care	74,248	—	—	—	2,540	—	76,788	0.49
Home medical equipment	—	—	—	—	—	—	—	0.00
Emergency room	154,583	—	182,815	—	7,338	1,832	346,568	2.21
Rural health clinic	<u>1,572,041</u>	<u>—</u>	<u>114,837</u>	<u>14,176</u>	<u>214,191</u>	<u>8,936</u>	<u>1,924,181</u>	<u>12.26</u>
	<u>3,230,121</u>	<u>—</u>	<u>745,459</u>	<u>813,606</u>	<u>1,292,064</u>	<u>175,100</u>	<u>6,256,350</u>	<u>39.86</u>
General services:								
Administration and general	1,031,375	—	54,019	—	875,960	10,189	1,971,543	12.56
Operation of plant	135,536	—	—	—	232,291	3,784	371,611	2.37
Laundry	0	—	—	—	19,054	844	19,898	0.13
Housekeeping	156,513	—	—	—	25,621	—	182,134	1.16
Dietary	179,942	—	2,131	—	45,633	1,203	228,909	1.46
Nursing administration	20,520	—	—	—	72	—	20,592	0.13
Medical records	148,649	—	588	—	202,105	11,428	362,770	2.31
Fitness	0	—	—	—	4,893	—	4,893	0.03
Employee benefits	—	1,943,715	—	—	—	—	1,943,715	12.38
Deferred loss amortization	—	—	—	—	—	6,075	6,075	0.04
Depreciation - building	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>195,353</u>	<u>195,353</u>	<u>1.24</u>
	<u>1,672,535</u>	<u>1,943,715</u>	<u>56,738</u>	<u>—</u>	<u>1,405,629</u>	<u>228,876</u>	<u>5,307,493</u>	<u>33.81</u>
	<u>\$ 7,351,539</u>	<u>\$ 1,943,715</u>	<u>\$ 1,703,728</u>	<u>\$ 841,609</u>	<u>\$ 3,358,636</u>	<u>\$ 495,182</u>	<u>\$ 15,694,409</u>	<u>100.00 %</u>