ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

FINANCIAL STATEMENTS

and

ADDITIONAL INFORMATION

with

INDEPENDENT AUDITOR'S REPORT

YEARS ENDED DECEMBER 31, 2012 AND 2011

George, Bowerman & Noel, 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

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, 2012 and 2011. 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 audit. We conducted our audit 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, 2012 and 2011, 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 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.

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 the 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.

George, Bowman & Noll, P.A.

Wichita, Kansas
May 24, 2013

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, 2012 and 2011. Please read it in conjunction with the System's financial statements, which begin on page 8.

Financial Highlights

- The System's net position decreased in 2012 by $861,613 or 20.91% compared to a decrease in 2011 of $311,558 or 7.03%.

- Contractual allowances, charity care and bad debts reduced gross patient service revenue by $3,877,504 or 23.93% of gross patient service revenue in 2012 and by $3,355,964 or 21.56% of gross patient service revenue in 2011.

- Other operating revenue decreased in 2012 by 461,734 or 83.03% over the amounts for 2011. This was primarily due to the accrual of approximately $516,000 of revenue for the Medicare and Medicaid electronic health record incentive program in 2011 as discussed in Note 2 to the financial statements.

- The System reported an operating loss in both 2012 ($1,820,072) and 2011 ($1,214,554). The operating loss in 2012 increased by $605,518 or 49.86% from the loss reported in 2011. The operating loss in 2011 decreased by $42,707 or 3.40% over the loss reported in 2010. The significant change from 2011 to 2012 was primarily due to the effect the accrual related to the electronic health record incentive program mentioned above.

- Net nonoperating revenues/expenses increased by $55,463 or 6.14% in 2012 compared to an increase in 2011 of $5,669 or 0.63%.

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, 2012, 2011 and 2010.

	December 31,		
	2012	2011	2010
Assets:			
Current assets	$ 4,395,359	$ 4,815,757	$ 5,289,258
Capital assets, net	6,132,670	6,630,023	7,158,046
Total assets	$ 10,528,029	$ 11,445,780	$ 12,447,304
Deferred outflows of resources:			
Loss on refunding	65,424	76,604	87,899
Liabilities:			
Long-term liabilities	$ 4,462,599	$ 4,905,795	$ 5,406,404
Other liabilities	1,651,441	1,559,432	1,780,373
Total liabilities	$ 6,114,040	$ 6,465,227	$ 7,186,777
Deferred inflows of resources:			
Deferred property taxes receivable	$ 1,219,598	$ 935,729	$ 915,440
Net position:			
Invested in capital assets, net	$ 1,172,915	$ 1,245,292	$ 1,284,292
Restricted	408,306	392,454	404,476
Unrestricted	1,678,594	2,483,682	2,744,218
Total net position	$ 3,259,815	$ 4,121,428	$ 4,432,986

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, 2012, 2011 and 2010.

	Year ended December 31,		
	2012	2011	2010
Operating revenue	$ 12,421,028	$ 12,763,386	$ 12,382,706
Operating expenses:			
Salaries	7,465,396	7,158,734	7,114,527
Employee benefits	1,718,270	2,090,652	1,966,366
Supplies and other	4,139,353	3,845,814	3,731,751
Depreciation and amortization	918,081	882,740	827,323
Total operating expenses	14,241,100	13,977,940	13,639,967
Operating loss	(1,820,072)	(1,214,554)	(1,257,261)

	Year ended December 31,		
	2012	2011	2010
Nonoperating revenues (expenses):			
Taxes	$ 1,002,512	$ 974,752	$ 976,489
Investment income	13,709	18,962	17,923
Interest expense	(202,502)	(217,833)	(235,965)
Grants and contributions	46,489	50,310	47,320
Other, net	98,251	76,805	91,560
Total nonoperating revenues (expenses)	958,459	902,996	897,327
Decrease in net position	$ (861,613)	$ (311,558)	$ (359,934)
Net position at end of year	$ 3,259,815	$ 4,121,428	$ 4,432,986

Overall, operating revenues decreased 2.68% from 2011 to 2012 and increased 3.07% from 2010 to 2011.

- Net patient service revenue increased 0.98% from 2011 to 2012 as compared to a decrease of .93% from 2010 to 2011.
- Other operating revenues increased significantly from 2010 to 2011 and decreased accordingly from 2011 to 2012 primarily due to the electronic health record incentive program mentioned above.

Overall, operating expenses increased 1.88% from 2011 to 2012 and increased 2.48% from 2010 to 2011.

- Salaries, wages, and employee benefits decreased 0.71% from 2011 to 2012 and increased 1.86% from 2010 to 2011.
- Equipment depreciation increased 4.00% from 2011 to 2012 and increased 6.70% from 2010 to 2011 primarily due to significant acquisitions made for the electronic health record system mentioned above.

Overall, the System's operating loss increased 49.86% from 2011 to 2012 and decreased 3.40% from 2010 to 2011 due primarily to the electronic health record system incentive program mentioned above. 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

Patient volumes are measured on both an inpatient and outpatient basis. Pertinent patient volume statistics are summarized in the following table:

	2012	2011	2010
Inpatient acute days	958	945	1,181
Observation bed days	305	324	144
	1,263	1,269	1,325
Percent change	(0.47)%	(4.23)%	(20.85)%

	2012	2011	2010
Swing bed days	607	936	953
Percent change	(35.15)%	(1.78)%	(29.36)%
LTCU days	15,061	16,979	17,613
Percent change	(11.30)%	(3.60)%	1.25%
RHC visits	10,072	10,530	10,577
Percent change	(4.35)%	(0.44)%	(12.56)%
Outpatient visits	9,367	10,738	10,432
Percent change	(12.77)%	2.93%	(15.39)%

Capital Assets

At the end of 2012, the System had $6,132,670 invested in capital assets, net of accumulated depreciation, as detailed in Note 9 to the financial statements. The System acquired additional capital assets costing $418,658 and $343,422 in 2012 and 2011, respectively.

Debt

At December 31, 2012, the System had $4,535,000 of general obligation bonds outstanding that had been issued to finance the construction of the new facility that opened in 2004. In addition, the System had $255,000 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.

The System also leases certain laboratory and imaging equipment under a capital lease agreements with remaining outstanding balances totaling approximately $170,000 at December 31, 2012.

Other Economic Factors

The assessed valuation for the System for 2013 is $93,907,809 an increase of $3,955,631 over the 2012 assessed valuation amount of $89,952,178. The total ad valorem taxes levied for 2013 was $1,231,794 compared to $954,444 for 2012.

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:

- 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.

- Healthcare reform. In 2010, the federal government enacted sweeping new legislation that will significantly impact virtually all aspects of the healthcare delivery and insurance systems in the country. Portions of the legislation will be implemented over the next several years. However, most of the detailed implementing regulations have not yet been issued and accordingly, any specific effects on operations of the System are currently undeterminable. Management continues to closely monitor the progression of the implementation of the legislation.

- 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.

  As part of the new legislation passed in 2009 and 2010, the federal government is providing financial incentives to healthcare providers to join in implementing a national electronic health record (EHR) system. Accordingly, the System has incurred significant expenditures for hardware and software to meet the requirements for the program. The System's initial EHR system implementation was approved by the Medicare and Medicaid fiscal intermediaries in 2011.

- 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

	December 31, 2012	December 31, 2011
Current assets:		
Cash (Notes 1 and 3)	$ 1,016,113	$ 1,606,449
Accounts receivable, net of allowance for doubtful accounts of $941,590 in 2012 and $1,063,498 in 2011	1,245,294	1,199,967
Property taxes receivable (Note 1)	1,219,598	935,729
Other receivables	39,711	54,087
Estimated third-party payer settlements (Note 2)	375,369	480,703
Inventories (Note 1)	398,254	419,364
Prepaid expenses	101,020	119,458
Total current assets	4,395,359	4,815,757
Property and equipment, at cost (Notes 1, 4 and 9):		
Land	86,142	86,142
Land improvements	1,278,116	1,278,116
Buildings and fixed equipment	7,671,163	7,705,903
Movable equipment	5,462,714	5,619,101
Total property and equipment	14,498,135	14,689,262
Less accumulated depreciation	8,365,465	8,059,239
Net property and equipment	6,132,670	6,630,023
Total assets	10,528,029	11,445,780
Deferred outflows of resources:		
Loss on refunding – net of accumulated amortization of $67,731 in 2012 and $56,551 in 2011 (Notes 1 and 4)	65,424	76,604
Total deferred outflows of resources	65,424	76,604
Total assets and deferred outflows of resources	$ 10,593,453	$ 11,522,384

LIABILITIES DEFERRED INFLOWS OF RESOURCES AND NET POSITION

	December 31, 2012	December 31, 2011
Current liabilities:		
Accounts payable	$ 175,323	$ 165,259
Salaries and payroll taxes payable	342,351	307,326
Current portion of compensated absences payable (Note 1)	536,578	502,830
Current portion of long-term debt (Note 4)	519,514	499,888
Accrued interest payable	77,675	84,129
Total current liabilities	1,651,441	1,559,432
Long-term debt (Note 4)	4,440,241	4,884,843
Compensated absences payable (Note 1)	22,358	20,952
Total non-current liabilities	4,462,599	4,905,795
Total liabilities	6,114,040	6,465,227
Deferred inflows of resources:		
Deferred property taxes receivable (Note 1)	1,219,598	935,729
Net position (Notes 1 and 7):		
Invested in capital assets net of related debt	1,172,915	1,245,292
Restricted – expendable for specific operating activities	408,306	392,454
Unrestricted	1,678,594	2,483,682
Total net position	3,259,815	4,121,428
Total liabilities, deferred inflows of resources and net position	$ 10,593,453	$ 11,522,384

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

	Year ended December 31,	
	2012	2011
Operating revenues:		
Net patient service revenue (Note 1)	$ 12,326,686	$ 12,207,310
Other (Note 2)	94,342	556,076
Total operating revenues	12,421,028	12,763,386
Operating expenses:		
Salaries	7,465,396	7,158,734
Employee benefits	1,718,270	2,090,652
Purchased services	498,515	477,834
Medical supplies and drugs	1,231,481	1,169,872
Other supplies and expense	2,409,357	2,198,108
Depreciation and amortization	918,081	882,740
Total operating expenses	14,241,100	13,977,940
Operating loss	(1,820,072)	(1,214,554)
Nonoperating revenues (expenses):		
Taxes for operations	446,789	441,488
Taxes for debt service	555,723	533,264
Investment income	13,709	18,962
Interest expense	(202,502)	(217,833)
Noncapital grants and contributions	46,489	50,310
Other	98,251	76,805
Total nonoperating revenues	958,459	902,996
Decrease in net position	(861,613)	(311,558)
Net position at beginning of year:		
As previously reported	4,121,428	4,468,607
Prior period adjustment – Change in accounting principle (Note 1)	–	(35,621)
As restated	4,121,428	4,432,986
Net position at end of year	$ 3,259,815	$ 4,121,428

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

	Year ended December 31,	
	2012	2011
Cash flows from operating activities:		
Receipts from and on behalf of patients	$ 12,004,391	$ 12,287,511
Payments to suppliers and contractors	(4,075,365)	(4,153,222)
Payments to and on behalf of employees	(9,113,487)	(9,225,621)
Other receipts and payments, net	476,644	39,814
Net cash flows used by operating activities	(707,817)	(1,051,518)
Cash flows from noncapital financing activities:		
Property taxes for operations	446,789	441,488
Grants and contributions	46,489	50,310
Other	98,251	76,805
Net cash flows provided by noncapital financing activities	591,529	568,603
Cash flows from capital and related financing activities:		
Property taxes for debt service	555,723	533,264
Principal payments on long-term debt	(523,005)	(489,023)
Interest paid on long-term debt	(208,956)	(224,103)
Purchases of capital assets	(311,519)	(292,566)
Net cash flows used by capital and related financing activities	(487,757)	(472,428)
Cash flows from investing activities – Investment income	13,709	18,962
Net decrease in cash and cash equivalents	(590,336)	(936,381)
Cash and cash equivalents at beginning of year	1,606,449	2,542,830
Cash and cash equivalents at end of year	$ 1,016,113	$ 1,606,449

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS - continued

	Year ended December 31,	
	2012	2011
Reconciliation of operating loss to net cash used by operating activities:		
Operating loss	$ (1,820,072)	$ (1,214,554)
Adjustments to reconcile operating loss to net cash flows used in operating activities:		
Depreciation and amortization	918,081	882,740
Provision for doubtful accounts	298,534	565,174
Deferred inflows of property taxes receivable	283,869	20,289
Net (increases) decreases in current assets:		
Accounts receivable	(343,861)	(437,654)
Property taxes receivable	(283,869)	(20,289)
Inventories	21,110	(32,109)
Estimated third-party payor settlements	105,334	(480,703)
Other current assets	32,814	(57,299)
Net increases (decreases) in current liabilities:		
Accounts payable	3,610	(224,270)
Salaries and wages payable	35,025	41,799
Compensated absences payable	35,154	(18,034)
Estimated third-party payor settlements	–	(82,878)
Accrued interest payable	6,454	6,270
Net cash used by operating activities	$ (707,816)	$ (1,051,518)

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

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 accounts, certificates of deposit, savings accounts and NOW accounts as cash and cash equivalents.

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 unearned revenue on the balance sheet.

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.

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

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 plus deferred outflows 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 $164,537 and $109,910 of charity care for the years ended December 31, 2012 and 2011, respectively estimated by multiplying the System's cost to charge ratio by the gross uncompensated care charges associated with providing care to charity patients.

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.

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

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 mount 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, 2012 and 2011. 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, 2012	$ 2,861,509	$ –	$ 398,306
Adjustments:			
Net property and equipment	(6,132,670)	–	–
Deferred loss on refunding	(65,424)	–	–
Accrued interest payable	77,674	–	–
Net long-term debt	4,959,756	–	–
Budgetary basis fund balance at December 31, 2012	$ 1,700,845	$ –	$ 398,306

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.

The System pays fixed premiums for annual medical malpractice coverage under an occurrence-basis policy. The System accrues the expenses of its share of malpractice claim costs, if any, of reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate cost of any incident. Based on the System's own claims experience, no accrual, for medical malpractice costs has been made in the accompanying financial statements.

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

Deferred inflows of resources/Deferred outflows of resources

Effective, January 1, 2012, the System implemented the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources and Net Position* and GASB Statement No. 65, *Items Previously Reported As Assets and Liabilities*. GASB Statement No. 63 provides guidance for reporting deferred inflows and deferred outflows or resources and GASB Statement No. 65 provides additional guidance on reclassifying, as deferred inflows of resources and deferred outflows of resources, certain items that were previously reported as assets and liabilities. The implementation of the applicable requirements of these GASB statements was accomplished by a retroactive adjustment to the net position balance at January 1, 2011.

A deferred inflow of resources is defined as an acquisition of net position applicable to a future reporting period. A deferred outflow or resources is the consumption of net position that is applicable to a future reporting period. The System identified certain financial statement balances that met the definition of either a deferred inflow or deferred outflow of resources. These items were reclassified as deferred inflows or deferred outflows, as applicable.

Prior period adjustment

In addition to the reclassifications described in the preceding section, GASB Statement No. 65 requires debt issuance costs to be expensed when incurred rather than being reported as deferred charges and amortized over the term of the related debt. This adjustment resulted in a $35,621 decrease in net position as of January 1, 2011.

Other reclassifications

Certain other reclassifications have been made to the 2011 financial statements to conform to the 2012 presentation. These other reclassifications had no effect on the change in net position.

Subsequent events

Subsequent events have been evaluated through May 24, 2013 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:

- **Medicare** – Inpatient, outpatient, and clinic services are paid based on cost reimbursement methodologies. 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 fiscal intermediary. Home health services are paid on prospectively determined rates per episode. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The System's classification of patients under the Medicare program and appropriateness of their admission are subject to an independent review by a peer review organization under contract with the System. The System's Medicare cost reports have been reviewed by the Medicare fiscal intermediary through December 31, 2010.

- **Medicaid** – The System is reimbursed under a cost reimbursement methodology for inpatient acute and outpatient services. 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 Medicaid fiscal intermediary. The System's Medicaid cost reports have been reviewed by the Medicare fiscal intermediary through December 31, 2008.

2. ESTIMATED THIRD-PARTY PAYER SETTLEMENTS (continued)

Inpatient long-term care services for 2012 and 2011 are paid at prospectively determined per diem rates that are based on the patient's acuity.

Approximately 44% and 49% of net patient service revenue is from participation in the Medicare program for each of the years ended December 31, 2012 and 2011, 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.

Pursuant to enactment of the *American Recovery and Reinvestment Act of 2009*, the Medicare and Medicaid programs implemented programs to provide for one-time incentive payments for eligible hospitals that demonstrate meaningful use of certified electronic health records systems (EHR).

Under Medicare's incentive program, hospitals are generally eligible to receive these incentive payments for up to four years for reasonable costs incurred for certified EHR systems multiplied by the hospital's Medicare utilization plus 20%, up to 100% of the reasonable costs incurred. Payments under the Medicaid program are generally available for up to four years based upon a formula determined by the state and approved by the Centers for Medicare and Medicaid Services (CMS). Final amounts for any payment year are contingent upon the hospital continuing to meet increasing meaningful use criteria and, accordingly, are subject to review and approval by the Medicare and Medicaid programs fiscal intermediaries. As a result, it is reasonably possible that final determined amounts may differ materially from initial revenues recorded under these programs.

During 2011, the System met the initial requirements to receive EHR incentive payments from both the Medicare and Medicaid programs and approximately $39,000 and $516,000 of other operating revenue has been recorded for the years ended December 31, 2012 and 2011, respectively.

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.

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 at December 31, 2012 consisted of demand deposit, certificates of deposit, NOW, and savings accounts. At year end, the carrying amount of the System's deposits, which approximates their fair value, was $1,015,843 with the bank balances of such accounts being $1,203,118. Of the bank balances, $455,609 was secured by federal depository insurance and the remaining balance of $747,509 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 $1,853,330 at December 31, 2012.

The remaining carrying amount of the System's cash and investments at December 31, 2012 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.

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, 2012 and 2011:

	Balance At December 31, 2011	Additions	Reductions	Balance At December 31, 2012	Amounts Due Within One Year
Bonds and capital lease obligations:					
General obligation bonds	$ 4,885,000	$ –	$ 350,000	$ 4,535,000	$ 350,000
Capital lease obligations	499,731	110,000	184,976	424,755	169,514
	5,384,731	110,000	534,976	4,959,755	519,514
Other liabilities:					
Compensated absences payable	523,782	603,094	567,940	558,936	536,578
Total noncurrent liabilities	$ 5,908,513	$ 713,094	$ 1,102,916	$ 5,518,691	$ 1,056,092

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

	Balance At December 31, 2010	Additions	Reductions	Balance At December 31, 2011	Amounts Due Within One Year
Bonds and capital lease obligations:					
General obligation bonds	$ 5,225,000	$ –	$ 340,000	$ 4,885,000	$ 350,000
Capital lease obligations	648,754	–	149,023	499,731	149,888
	5,873,754	–	489,023	5,384,731	499,888
Other liabilities:					
Compensated absences payable	541,816	547,937	565,971	523,782	502,830
Total noncurrent liabilities	$ 6,415,570	$ 547,937	$ 1,054,994	$ 5,908,513	$ 1,002,718

In December 2006, the System issued $5,630,000 in general obligation bonds to advance refund $5,390,000 of outstanding General Obligation Bonds, Series 2001 (Refunded Bonds). The advance refunding reduced the System's aggregate debt service payments by $102,583 and resulted in an economic gain (difference between the present values of the old and new debt service payments) of $102,326.

The General Obligation Refunding Bonds, Series 2006 mature in various amounts ranging from $35,000 to $565,000 beginning on February 1, 2008 with the final payment due on February 1, 2022. Interest, at rates ranging from 3.85% to 4.25%, is due semiannually on February 1 and August 1 beginning on February 1, 2007. Interest expense on the bonds was $191,710 and $200,352 for 2012 and 2011, 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:			
2013	$ 360,000	$ 176,623	$ 536,623
2014	375,000	161,004	536,004
2015	400,000	144,535	544,535
2016	420,000	127,950	547,950
2017	435,000	111,382	546,382
2018	460,000	93,700	553,700
2019	480,000	74,900	554,900
2020	505,000	55,200	560,200
2021	535,000	34,133	569,133
2022	565,000	11,583	576,583
	$ 4,535,000	$ 991,010	$ 5,526,010

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

Certificates of participation dated July 1, 2005 in the amount of $735,000 were issued pursuant to a lease purchase agreement between the System, as lessee, and UMB Bank, N.A. as trustee and lessor. The lease purchase agreement provides for basic rent payments to be paid semi-annually beginning on December 1, 2005 with the final payment due on June 1, 2015. Interest rates on the certificates range from 3.20% to 4.25%. Interest expense under the lease purchase agreement was $12,252 and $15,040 for the years ended December 31, 2012 and 2011, respectively. The certificates of participation were issued to finance the acquisition of an existing long-term care facility.

The System also leases certain medical equipment under capital lease agreements, including a new lease of $110,000 in 2012. Interest expense under the capital lease agreements was $4,994 and $2,441 for the years ended December 31, 2012 and 2011, respectively.

The medical equipment leases and the certificates of participation 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,	
	2012	2011
Land	$ 26,266	$ 26,266
Buildings	535,209	535,209
Movable equipment	478,485	380,456
	1,039,960	941,931
Accumulated depreciation	454,075	339,267
	$ 585,885	$ 602,664

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, 2012:

Year ending December 31,	
2013	$ 187,515
2014	125,350
2015	113,909
2016	21,996
2017	1,833
Total minimum lease payments	450,603
Less amount representing interest	25,848
Present value of net minimum lease payments	$ 424,755

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 $713,416 and $660,180 for the years ended December 31, 2012 and 2011.

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, 2012	December 31, 2011
Medicare	$ 426,278	$ 125,724
Medicaid	55,341	9,628
Commercial	1,121,386	639,977
Private pay	583,879	1,488,136
Gross accounts receivable	2,186,884	2,263,465
Less allowance for doubtful accounts	941,590	1,063,498
	$ 1,245,294	$ 1,199,967

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, 2012, is as follows:

Fowler State Bank	91%
Meade State Bank	9%

7. RESTRICTED NET POSITION

Restricted, expendable net position consist of cash and cash equivalents and are available for the following purposes:

	December 31, 2012	December 31, 2011
SCHIP grant	$ 5,000	$ 8,161
Quality improvement grant	5,000	–
Debt service for general obligation bonds	398,306	384,293
	$ 408,306	$ 392,454

Net position were released from restrictions by incurring expenses satisfying the restricted purposes for the following:

	December 31, 2012	December 31, 2011
SCHIP grant	$ 8,161	$ 7,075
Debt service for general obligation bonds	541,710	546,372
	$ 549,871	$ 553,447

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.

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, 2012 and 2011 were as follows:

	Balance At December 31, 2011	Additions	Disposals	Balance At December 31, 2012
Capital assets not being depreciated:				
Land	$ 86,142	$ –	$ –	$ 86,142
Capital assets being depreciated:				
Land improvements	1,278,116	–	–	1,278,116
Buildings and fixed equipment	7,705,903	–	34,740	7,671,163
Movable equipment	5,619,101	418,658	575,045	5,462,714
Total capital assets being depreciated	14,603,120	418,658	609,785	14,411,993
Less accumulated depreciation for:				
Land improvements	513,851	59,590	–	573,441
Buildings and fixed equipment	3,338,620	392,681	27,636	3,703,665
Movable equipment	4,206,768	454,630	573,039	4,088,359
Total accumulated depreciation	8,059,239	906,901	600,675	8,365,465
Total capital assets being depreciated, net	6,543,881	(488,243)	9,110	6,046,528
Total capital assets, net	$ 6,630,023	$ (488,243)	$ 9,110	$ 6,132,670

9. CAPITAL ASSETS (continued)

	Balance At December 31, 2010	Additions	Disposals	Balance At December 31, 2011
Capital assets not being depreciated:				
Land	$ 86,142	$ –	$ –	$ 86,142
Capital assets being depreciated:				
Land improvements	1,278,116	–	–	1,278,116
Buildings and fixed equipment	7,679,300	26,603	–	7,705,903
Movable equipment	5,302,282	316,819	–	5,619,101
Total capital assets being depreciated	14,259,698	343,422	–	14,603,120
Less accumulated depreciation for:				
Land improvements	453,608	60,243	–	513,851
Buildings and fixed equipment	2,936,754	401,866	–	3,338,620
Movable equipment	3,797,432	409,336	–	4,206,768
Total accumulated depreciation	7,187,794	871,445	–	8,059,239
Total capital assets being depreciated, net	7,071,904	(528,023)	–	6,543,881
Total capital assets, net	$ 7,158,046	$ (528,023)	$ –	$ 6,630,023

10. FAIR VALUE OF FINANCIAL INSTRUMENTS

Generally Accepted Accounting Principles (GAAP) establishes a single authoritative definition of fair value, sets a framework for measuring fair value and requires additional disclosures about fair value measurements. Financial instruments that are measured and reported at fair value are classified and disclosed in one of the following categories based on inputs:

- Level 1 – Quoted market prices are available in active markets for identical instruments as of the reporting date.
- Level 2 – Pricing inputs are observable for the instruments, either directly or indirectly, as of the reporting date, but are other than quoted prices in active markets as in Level 1.
- Level 3 – Pricing inputs are unobservable for the instrument and include situations where there is little, if any, market activity for the instrument.

10. FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

The following methods and assumptions were used by the System in estimating the fair value of its financial instruments:

Cash and cash equivalents – The carrying amounts reported in the balance sheet for cash and cash equivalents approximates its fair value.

Accounts receivable – The carrying amounts reported in the balance sheet for accounts receivable approximates fair value because of the short-term nature of those instruments.

Estimated third-party payor settlements – The carrying amounts reported in the balance sheet for estimated third-party payor settlements approximates fair value because of the short-term nature of those instruments.

Accounts and other payables – The carrying amounts reported in the balance sheet for accounts and other payables approximates their fair value because of the short-term nature of those instruments.

Capitalized lease obligations – The fair value of these liabilities is estimated using discounted cash flow analyses, based on the interest rate implicit in the lease agreements.

General obligation bonds – The carrying amounts reported in the balance sheet for the bonds is their face value which approximates their fair value.

The carrying amounts and fair value of the System's financial instruments at December 31, 2012 and 2011 are as follows:

	December 31, 2012		December 31, 2011	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Cash and cash equivalents	$ 1,016,113	$ 1,016,113	$ 1,606,449	$ 1,606,449
Accounts and other receivables	1,285,005	1,285,005	1,254,054	1,254,054
Estimated third-party payor settlements	375,369	375,369	480,703	480,703
Accounts and other payables	595,349	595,349	556,714	556,714
Capitalized lease obligations	424,755	424,755	499,731	499,731
General obligation bonds	4,535,000	4,535,000	4,885,000	4,885,000

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, 2012

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance With Final Budget Positive (Negative)
Revenues:				
Net patient service revenue	$ 11,877,772	$ 11,877,772	$ 12,326,686	$ 448,914
Taxes	316,744	316,744	320,517	3,773
Other	184,084	184,084	252,791	68,707
Total revenues	12,378,600	12,378,600	12,899,994	521,394
Expenditures:				
Salaries	7,283,139	7,283,139	7,465,396	(182,257)
Employee benefits	1,951,725	1,951,725	1,591,998	359,727
Supplies and contractual services	4,134,478	4,134,478	4,144,347	(9,869)
Capital outlay	480,717	480,717	496,776	(16,059)
Transfers to Employee Benefits Fund	50,000	50,000	–	50,000
Total expenditures	13,900,059	13,900,059	13,698,517	201,542
Excess of revenue over (under) expenditures	(1,521,459)	(1,521,459)	(798,523)	722,936
Fund balance, beginning of year	1,660,460	1,660,460	2,499,368	838,908
Fund balance, end of year	$ 139,001	$ 139,001	$ 1,700,845	$ 1,561,844

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, 2012

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance With Final Budget Positive (Negative)
Revenues:				
Taxes	$ 124,900	$ 124,900	$ 126,272	$ 1,372
Transfers from operations and maintenance fund	50,000	50,000	–	(50,000)
Total revenues	174,900	174,900	126,272	(48,628)
Expenditures – Employee benefits	174,900	174,900	126,272	48,628
Excess of revenue over (under) expenditures	–	–	–	–
Fund balance, beginning of year	–	–	–	–
Fund balance, end of year	$ –	$ –	$ –	$ –

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, 2012

	Original Budget	Final Budget	Actual Amounts Budgetary Basis	Variance With Final Budget Positive (Negative)
Revenues – Taxes	$ 548,338	$ 548,338	$ 555,723	$ 7,385
Expenditures:				
Principal payments on bonds	350,000	350,000	350,000	–
Interest payments bonds	541,710	541,710	191,710	350,000
Total expenditures	891,710	891,710	541,710	350,000
Excess of revenue over (under) expenditures	(343,372)	(343,372)	14,013	357,385
Fund balance, beginning of year	387,066	387,066	384,293	(2,773)
Fund balance, end of year	$ 43,694	$ 43,694	$ 398,306	$ 354,612

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

SCHEDULE OF PATIENT SERVICE REVENUE

	Year ended December 31,					
	2012			2011		
	Inpatient	Outpatient	Total	Inpatient	Outpatient	Total
Adults and pediatrics	$ 607,161	$ 409,389	$ 1,016,550	$ 554,069	$ 509,066	$ 1,063,135
Swing beds	138,278	–	138,278	190,322	–	190,322
Long-term care unit	2,172,512	–	2,172,512	2,332,001	–	2,332,001
Operating room	244,432	1,509,173	1,753,605	278,292	1,278,152	1,556,444
Anesthesiology	82,701	262,779	345,480	93,129	259,543	352,672
Radiology	247,461	1,763,664	2,011,125	221,217	1,552,513	1,773,730
Laboratory	549,646	1,753,307	2,302,953	443,221	1,557,997	2,001,218
Respiratory therapy	413,419	145,615	559,034	521,747	153,475	675,222
Physical therapy	81,056	664,349	745,405	110,927	551,887	662,814
Cardiac rehabilitation	–	13,280	13,280	–	7,200	7,200
Electrocardiology	27,348	88,124	115,472	19,120	75,894	95,014
Medical supplies	842,246	950,369	1,792,615	1,020,151	598,811	1,618,962
Pharmacy	590,594	392,719	983,313	586,677	456,518	1,043,195
Home health	–	99,358	99,358	–	152,312	152,312
Home medical equipment	–	392,886	392,886	–	445,118	445,118
Emergency room	4,472	269,940	274,412	4,013	224,723	228,736
Rural health clinic	–	1,487,912	1,487,912	–	1,365,179	1,365,179
	$ 6,001,326	$ 10,202,864	16,204,190	6,374,886	$ 9,188,388	15,563,274
Contractual adjustments			(3,394,377)			(2,670,346)
Charity care			(184,593)			(120,444)
Bad debts			(298,534)			(565,174)
Net patient service revenue			$ 12,326,686 $			$ 12,207,310

ARTESIAN VALLEY HEALTH SYSTEM

a/k/a MEADE HOSPITAL DISTRICT

SCHEDULE OF OPERATING EXPENSES BY FUNCTIONAL DIVISION

	Year ended December 31, 2012							
Department	Salaries	Employee benefits	Purchased services	Medical supplies and drugs	Other supplies/ expense	Depreciation	Total	Percent of total operating expenses
Routine service:								
Adult and pediatrics	$ 1,097,108	$ –	$ –	$ –	$ 101,821	$ 150,212	$ 1,349,141	9.45 %
Long-term care unit	2,137,777	–	26,076	43,636	502,771	14,552	2,724,812	19.13
	3,234,885	–	26,076	43,636	604,592	164,764	4,073,953	28.58
Ancillary services:								
Operating room	220,808	–	–	–	96,351	75,037	392,196	2.75
Anesthesiology	–	–	260,578	–	6,348	5,859	272,785	1.92
Radiology	253,544	–	–	–	143,967	104,885	502,396	3.53
Laboratory	269,039	–	50,180	–	399,858	44,209	763,286	5.36
Respiratory therapy	149,310	–	–	4,854	11,578	820	166,562	1.17
Physical therapy	259,157	–	–	–	32,161	5,958	297,276	2.09
Cardiac rehabilitation	10,017	–	–	–	2	–	10,019	0.07
Electrocardiology	1,398	–	–	–	298	5,296	6,992	0.05
Medical supplies	41,795	–	–	920,887	–	–	962,682	6.76
Pharmacy	92,067	–	18,789	220,654	–	28	331,538	2.33
Home health	152,745	–	–	–	16,910	1,042	170,697	1.20
Home medical equipment	61,484	–	–	31,328	–	579	93,391	0.66
Emergency room	185,242	–	2,000	–	3,124	1,832	192,198	1.35
Rural health clinic	1,170,239	–	–	10,122	107,715	2,455	1,290,531	9.06
	2,866,845	–	331,547	1,187,845	818,312	248,000	5,452,549	38.30
General services:								
Administration and general	721,313	–	136,010	–	523,028	15,940	1,396,291	9.80
Operation of plant	69,804	–	–	–	326,304	2,620	398,728	2.80
Laundry	–	–	–	–	830	7,121	7,951	0.06
Housekeeping	127,098	–	–	–	38,832	–	165,930	1.17
Dietary	159,535	–	1,882	–	65,047	11,801	238,265	1.67
Nursing administration	82,910	–	–	–	3,657	63	86,630	0.61
Medical records	130,936	–	–	–	20,495	3,452	154,883	1.09
Social services	–	–	3,000	–	–	–	3,000	0.02
Fitness	72,070	–	–	–	8,260	869	81,199	0.57
Employee benefits	–	1,718,270	–	–	–	–	1,718,270	12.07
Debt cost amortization	–	–	–	–	–	11,180	11,180	0.08
Depreciation - building	–	–	–	–	–	452,271	452,271	3.18
	1,363,666	1,718,270	140,892	–	986,453	505,317	4,714,598	33.12
	$ 7,465,396	$ 1,718,270	$ 498,515	$ 1,231,481	$ 2,409,357	$ 918,081	$ 14,241,100	100.00 %

Department	Salaries	Employee benefits	Purchased services	Medical supplies and drugs	Other supplies/ expense	Depreciation	Total	Percent of total operating expenses
	Year ended December 31, 2011							
Routine service:								
Adult and pediatrics	$ 1,070,103	$ –	$ –	$ –	$ 70,604	$ 110,847	$ 1,251,554	8.96 %
Long-term care unit	2,026,875	–	8,067	47,380	402,558	13,538	2,498,418	17.87
	3,096,978	–	8,067	47,380	473,162	124,385	3,749,972	26.83
Ancillary services:								
Operating room	199,321	–	–	–	67,457	55,198	321,976	2.30
Anesthesiology	–	–	249,255	–	6,067	5,843	261,165	1.87
Radiology	235,885	–	–	–	135,652	102,967	474,504	3.39
Laboratory	264,398	–	48,202	–	339,551	45,212	697,363	4.99
Respiratory therapy	150,568	–	–	4,763	13,378	1,969	170,678	1.22
Physical therapy	231,912	–	17,041	–	20,487	8,018	277,458	1.98
Cardiac rehabilitation	6,118	–	–	–	8	–	6,126	0.04
Electrocardiology	990	–	–	–	14	8,260	9,264	0.07
Medical supplies	43,057	–	–	856,318	–	–	899,375	6.43
Pharmacy	89,101	–	17,391	217,590	–	28	324,110	2.32
Home health	172,503	–	–	–	14,602	1,039	188,144	1.35
Home medical equipment	66,814	–	–	30,983	–	765	98,562	0.71
Emergency room	191,392	–	2,340	–	4,367	2,171	200,270	1.43
Rural health clinic	1,173,426	–	–	12,838	123,633	2,465	1,312,362	9.39
	2,825,485	–	334,229	1,122,492	725,216	233,935	5,241,357	37.49
General services:								
Administration and general	648,667	–	128,284	–	491,355	21,150	1,289,456	9.22
Operation of plant	67,522	–	–	–	366,119	2,613	436,254	3.12
Laundry	–	–	–	–	214	6,503	6,717	0.05
Housekeeping	116,843	–	–	–	40,188	–	157,031	1.12
Dietary	149,586	–	4,254	–	66,885	11,002	231,727	1.66
Nursing administration	65,575	–	–	–	3,635	63	69,273	0.50
Medical records	127,809	–	–	–	21,795	8,366	157,970	1.13
Social services	–	–	3,000	–	–	–	3,000	0.02
Fitness	60,269	–	–	–	9,539	1,315	71,123	0.51
Employee benefits	–	2,090,652	–	–	–	–	2,090,652	14.96
Debt cost amortization	–	–	–	–	–	11,295	11,295	0.08
Depreciation - building	–	–	–	–	–	462,113	462,113	3.31
	1,236,271	2,090,652	135,538	–	999,730	524,420	4,986,611	35.68
	$ 7,158,734	$ 2,090,652	$ 477,834	$ 1,169,872	$ 2,198,108	$ 882,740	$ 13,977,940	100.00 %