

North Runnels County Hospital District

Basic Financial Statements and
Independent Auditors' Report

June 30, 2020 and 2019



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

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Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

Board of Directors
North Runnels County Hospital District
Winters, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of North Runnels County Hospital District (the District) as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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 auditors' 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 auditors consider 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 the District as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter – COVID-19 Pandemic

As described in Note 11 to the financial statements, the District has incurred additional expenses and experienced significant declines in patient volumes due to the COVID-19 pandemic in 2020. Management's evaluation of the events and conditions and management's plans to mitigate these matters are also described in Note 11. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by 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. Our opinion on the basic financial statements is not affected by this missing information.

Other Information

Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The schedule of divisional statement of net position and divisional statement of revenues, expenses, and changes in net position are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The schedules of divisional statement of net position and divisional statement of revenues, expenses, and changes in net position are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedules of divisional statement of net position and divisional statement of revenues, expenses, and changes in net position are fairly stated in all material respects in relation to the basic financial statements as a whole.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
December 11, 2020

North Runnels County Hospital District
Statements of Net Position
June 30, 2020 and 2019

ASSETS	2020	2019
<i>Current assets</i>		
Cash and cash equivalents	\$ 12,338,681	\$ 16,965,386
Receivables:		
Patient accounts, net of estimated uncollectibles	2,088,991	1,494,649
Estimated third-party payor settlements	119,997	-
Taxes	31,111	30,539
Inventories	215,463	153,425
Total current assets	14,794,243	18,643,999
<i>Noncurrent assets</i>		
Capital assets, net	3,539,756	2,600,220
Total assets	\$ 18,333,999	\$ 21,244,219

See accompanying notes to basic financial statements.

North Runnels County Hospital District
 Statements of Net Position (Continued)
 June 30, 2020 and 2019

LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION	2020	2019
<i>Current liabilities</i>		
Accounts payable	\$ 336,782	\$ 72,379
Professional fees payable for advanced diagnostics services	-	100,000
Accrued compensation and related liabilities	345,411	246,553
Unearned CARES Act Provider Relief Funds	3,817,384	-
Current maturities of long-term debt	50,281	83,673
Total current liabilities	4,549,858	502,605
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	93,967	148,348
Total liabilities	4,643,825	650,953
<i>Deferred inflow of resources, taxes</i>	258,000	258,000
<i>Net position</i>		
Net investment in capital assets	3,395,508	2,368,199
Unrestricted	10,036,666	17,967,067
Total net position	13,432,174	20,335,266
Total liabilities, deferred inflow of resources, and net position	\$ 18,333,999	\$ 21,244,219

See accompanying notes to basic financial statements.

North Runnels County Hospital District
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended June 30, 2020 and 2019

	2020	2019
<i>Operating revenues</i>		
Net patient service revenue	\$ 5,955,239	\$ 25,001,702
Supplemental Medicaid funding	23,235	283,552
Other revenue	49,837	23,024
Total operating revenues	6,028,311	25,308,278
<i>Operating expenses</i>		
Salaries and wages	5,408,293	3,991,266
Employee benefits	987,643	774,121
Professional fees - advanced diagnostics services	-	11,331,822
Professional fees	1,586,435	968,835
Supplies	780,979	573,566
Depreciation and amortization	336,623	292,018
Repairs and maintenance	803,023	425,511
Utilities	196,813	125,952
Leases and rentals	69,398	34,210
Insurance	92,068	65,223
Other	384,781	251,981
Total operating expenses	10,646,056	18,834,505
Operating income (loss)	(4,617,745)	6,473,773
<i>Nonoperating revenues (expenses)</i>		
Property taxes	1,044,004	1,004,509
Property tax collection expense	(37,421)	(24,986)
Tobacco settlement	18,878	18,872
Investment income	145,259	176,715
Interest expense	(12,639)	(33,410)
Gain on disposal of assets	3,000	-
CARES Act Provider Relief Funds	303,572	-
Total nonoperating revenues, net	1,464,653	1,141,700
<i>Advanced diagnostics services settlement</i>	(3,750,000)	-
Change in net position	(6,903,092)	7,615,473
Net position, beginning of year	20,335,266	12,719,793
Net position, end of year	\$ 13,432,174	\$ 20,335,266

See accompanying notes to basic financial statements.

North Runnels County Hospital District
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 5,240,900	\$ 28,862,345
Supplemental Medicaid funding receipts	23,235	283,552
Other receipts	49,837	23,024
Payments to and on behalf of employees	(6,297,078)	(4,734,710)
Payments to suppliers and contractors	(3,811,132)	(17,502,357)
Advanced diagnostics services settlement	(3,750,000)	-
Net cash provided by (used in) operating activities	(8,544,238)	6,931,854
<i>Cash flows from noncapital financing activities</i>		
Property taxes	1,043,432	1,042,109
Property tax collection fee paid	(37,421)	(24,986)
Tobacco settlement	18,878	18,872
CARES Act Provider Relief Fund	4,120,956	-
Net cash provided by noncapital financing activities	5,145,845	1,035,995
<i>Cash flows from capital and related financing activities</i>		
Principal payments on long-term debt	(87,772)	(607,274)
Interest paid	(12,639)	(33,410)
Purchase of capital assets	(1,273,160)	(138,158)
Net cash used in capital and related financing activities	(1,373,571)	(778,842)
<i>Cash flows from investing activities</i>		
Investment income	145,259	176,715
Net increase (decrease) in cash and cash equivalents	(4,626,705)	7,365,722
Cash and cash equivalents, beginning of year	16,965,386	9,599,664
Cash and cash equivalents, end of year	\$ 12,338,681	\$ 16,965,386

See accompanying notes to basic financial statements.

**North Runnels County Hospital District
Statements of Cash Flows (Continued)
Years Ended June 30, 2020 and 2019**

	2020	2019
<i>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</i>		
Operating income (loss)	\$ (4,617,745)	\$ 6,473,773
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>		
Depreciation and amortization	336,623	292,018
Provision for bad debts	734,529	314,677
Advanced diagnostics services settlement	(3,750,000)	-
(Increase) decrease in assets:		
Receivables:		
Patient accounts	(1,328,871)	3,095,966
Estimated third-party payor settlements	(119,997)	450,000
Inventories	(62,038)	(30,846)
Increase (decrease) in liabilities:		
Accounts payable	264,403	(71,973)
Professional fees payable for advanced diagnostics services	(100,000)	(3,622,438)
Accrued compensation and related liabilities	98,858	30,677
Net cash provided by (used in) operating activities	\$ (8,544,238)	\$ 6,931,854

See accompanying notes to basic financial statements.

**North Runnels County Hospital District
Notes to Basic Financial Statements
Years Ended June 30, 2020 and 2019**

1. Reporting Entity and Summary of Significant Accounting Policies:

a. Reporting Entity

North Runnels County Hospital District (the District), is a hospital district created under the laws of the state of Texas. It is governed by a seven-member board of directors elected by the citizens of North Runnels County Hospital District. The District is responsible for indigent care of residents of the District as dictated by the law creating the District. The District operates critical access hospital, nursing home, rural health clinic, home health agency, and ambulance services.

b. Summary of Significant Accounting Policies

Use of estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures 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.

Enterprise fund accounting – The District's accounting policies conform to accounting principles generally accepted in the United States of America as applicable to proprietary funds of governments. The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Cash and cash equivalents – Cash and cash equivalents include investments in highly liquid debt instruments with an original maturity of three months or less.

Inventories – Inventories are stated at cost using the first-in, first-out method. Inventories consist of pharmaceutical, medical-surgical, and other supplies used in the operation of the District.

Compensated absences – District policies permit most employees to accumulate vacation benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statements of net position date.

Net position – Net position of the District is classified into three components. *Net investment in capital assets* consists of capital assets net of accumulated depreciation and is reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. *Restricted net position* is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District. The District had no restricted net position at June 30, 2020 or 2019. *Unrestricted net position* is remaining net position that does not meet the definition of *net investment in capital assets* or *restricted net position*.

**North Runnels County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2020 and 2019**

1. Reporting Entity and Summary of Significant Accounting Policies (continued):

b. Summary of Significant Accounting Policies (continued)

Operating revenues and expenses – The District’s statements of revenues, expenses, and changes in net position distinguish between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions, including grants for specific operating activities associated with providing healthcare services — the District’s principal activity. Nonexchange revenues, including taxes and contributions received for purposes other than capital asset acquisitions, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide healthcare services other than financing costs.

Restricted resources – When the District has both restricted and unrestricted resources available to finance a particular program, it is the District’s policy to use restricted resources before unrestricted resources.

Tobacco settlement revenue – Tobacco settlement revenues are the result of a settlement between various counties and hospital districts in Texas and the tobacco industry for tobacco related healthcare costs. The funding from the tobacco industry is to offset indigent healthcare costs of local governments.

Grants and contributions – From time to time, the District receives federal, state, and county grants, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) 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. Grants that are unrestricted or that are restricted to a specific operating purpose are reported as operating revenues. Grants that are used to subsidize operating deficits are reported as nonoperating revenues. Contributions, except for capital contributions, are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Upcoming accounting standards pronouncements – In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*, which increases the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this statement, a lessee is required to recognize a lease liability and an intangible asset representing the lessee’s right to use the leased asset, thereby enhancing the relevance and consistency of information about governments’ leasing activities. The new guidance is effective for the District’s year ending June 30, 2022, although earlier application is encouraged. The District has not elected to implement this statement early; however, management is still evaluating the impact, if any, of this statement in the year of adoption.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The new guidance is effective for the District’s year ending June 30, 2022. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

**North Runnels County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2020 and 2019**

2. Bank Deposits and Investments:

Custodial credit risk is the risk that, in the event of a bank failure, the District's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the state of Texas; bonds of any city, county, school district, or special road district of the state of Texas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

The District may legally invest in direct obligations and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities. The District has funds of \$10,399,817 and \$10,531,879 invested in TexPool as of June 30, 2020 and 2019, respectively, which do not require security, as shown below. These funds are immediately redeemable by the District. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool. Oversight includes the ability to significantly influence operations, designation of management, and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons which do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure. Weekly portfolio information must be submitted to Standard & Poor's, as well as the Office of the Comptroller of Public Accounts for review.

TexPool represents that they operate in a manner consistent with the Securities and Exchange Commission's Rule 2a-7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net position to compute share prices.

The District's investments may be exposed to the following types of risks:

- *Interest rate risk* – Interest rate risk is the risk that market values of investments will change based on changes in market interest rates. TexPool is presented as an investment with a maturity of less than one year because they are redeemable in full immediately.
- *Credit risk* – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the District's policy to limit its investments to certificates of deposit, indexed money market accounts which are FDIC insured or secured by obligations of a federal agency, treasury securities, or local government investment pools. TexPool is rated AAA by Standard and Poor's.
- *Custodial credit risk* – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.
- *Concentration of credit risk* – The District places no limit on the amount that may be invested in any one issuer. The only investment held by the District at June 30, 2020 and 2019, was the investment in TexPool.

North Runnels County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

3. Patient Accounts Receivable:

Patient accounts receivable are reduced by an allowance for uncollectible accounts. In evaluating the collectibility of patient accounts receivable, the District analyzes its past history and identifies trends for each of its major payor sources of revenue to estimate the appropriate allowance for uncollectible accounts and provision for bad debts. Management regularly reviews data about these major payor sources of revenue in evaluating the sufficiency of the allowance for uncollectible accounts. For receivables associated with services provided to patients who have third-party coverage, the District analyzes contractually due amounts and provides an allowance for uncollectible accounts and a provision for bad debts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payor has not yet paid, or for payors who are known to be having financial difficulties that make the realization of amounts due unlikely). For receivables associated with self-pay patients (which include both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the District records a significant provision for bad debts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for uncollectible accounts.

The District's allowance for uncollectible accounts for self-pay patients did not change significantly from the prior years. The District does not maintain a material allowance for uncollectible accounts from third-party payors, nor did it have significant writeoffs from third-party payors.

Patient accounts receivable reported as current assets were as follows:

	2020	2019
Receivable from patients and their insurance carriers	\$ 540,568	\$ 394,710
Receivable from Medicare	1,686,277	1,251,167
Receivable from Medicaid	235,146	29,772
Total patient accounts receivable	2,461,991	1,675,649
Less allowance for uncollectible accounts	(373,000)	(181,000)
Patient accounts receivable, net	\$ 2,088,991	\$ 1,494,649

North Runnels County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

4. Capital Assets:

The District capitalizes assets whose costs exceed \$5,000 and have an estimated useful life of at least two years. Assets under capital lease obligations are amortized over the shorter of the lease term or their respective estimated useful lives. Amortization of assets subject to leases is reported with depreciation expense.

Major expenses for capital assets, including repairs that increase the useful lives, are capitalized. Maintenance, repairs, and minor renewals are accounted for as expenses as incurred. Capital assets are reported at historical cost or their estimated fair value at the date of donation. Depreciation is provided over the estimated useful life of each class of depreciable asset and computed using the straight-line method.

Useful lives are estimated as follows:

	<u>Years</u>
Building and improvements	5-40
Equipment	3-20

Capital asset activity follows:

	Balance June 30, 2019	Additions	Retirements	Transfers	Balance June 30, 2020
<i>Capital assets not being depreciated</i>					
Land	\$ 17,311	\$ 8,650	\$ -	\$ -	\$ 25,961
Construction in progress	345,301	93,898	-	(297,248)	141,951
Total capital assets not being depreciated	362,612	102,548	-	(297,248)	167,912
<i>Capital assets being depreciated</i>					
Building and improvements	2,254,491	890,574	-	232,430	3,377,495
Equipment	2,441,499	283,037	-	64,818	2,789,354
Total capital assets being depreciated	4,695,990	1,173,611	-	297,248	6,166,849
<i>Less accumulated depreciation for</i>					
Building and improvements	(901,253)	(97,236)	-	-	(998,489)
Equipment	(1,557,129)	(239,387)	-	-	(1,796,516)
Total accumulated depreciation	(2,458,382)	(336,623)	-	-	(2,795,005)
Total capital assets being depreciated, net	2,237,608	836,988	-	297,248	3,371,844
Capital assets, net of accumulated depreciation	\$ 2,600,220	\$ 939,536	\$ -	\$ -	\$ 3,539,756

North Runnels County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

4. Capital Assets (continued):

	Balance June 30, 2018	Additions	Retirements	Transfers	Balance June 30, 2019
<i>Capital assets not being depreciated</i>					
Land	\$ 17,311	\$ -	\$ -	\$ -	\$ 17,311
Construction in progress	110,994	343,671	-	(109,364)	345,301
Total capital assets not being depreciated	128,305	343,671	-	(109,364)	362,612
<i>Capital assets being depreciated</i>					
Building and improvements	2,181,648	-	-	72,843	2,254,491
Equipment	2,932,423	148,884	(676,329)	36,521	2,441,499
Total capital assets being depreciated	5,114,071	148,884	(676,329)	109,364	4,695,990
<i>Less accumulated depreciation for</i>					
Building and improvements	(874,930)	(72,839)	-	-	(947,769)
Equipment	(1,613,366)	(219,179)	321,932	-	(1,510,613)
Total accumulated depreciation	(2,488,296)	(292,018)	321,932	-	(2,458,382)
Total capital assets being depreciated, net	2,625,775	(143,134)	(354,397)	109,364	2,237,608
Capital assets, net of accumulated depreciation	\$ 2,754,080	\$ 200,537	\$ (354,397)	\$ -	\$ 2,600,220

Construction in progress at June 30, 2020, consisted of various projects placed into service in July 2020 with insignificant costs to complete.

North Runnels County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

5. Long-term Debt:

A schedule of changes in the District's noncurrent liabilities follows:

	Balance June 30, 2019	Additions	Principal Payments	Balance June 30, 2020	Amounts Due Within One Year
Capital lease obligations	\$ 232,021	\$ -	\$ (87,773)	\$ 144,248	\$ 50,281

	Balance June 30, 2018	Additions	Principal Payments	Balance June 30, 2019	Amounts Due Within One Year
Capital lease obligations	\$ 839,295	\$ -	\$ (607,274)	\$ 232,021	\$ 83,673

Scheduled principal and interest payments are as follows:

Years Ending June 30,	Capital Lease Obligations		
	Principal	Interest	Total
2021	\$ 50,281	\$ 4,890	\$ 55,171
2022	52,323	2,848	55,171
2023	41,644	774	42,418
	\$ 144,248	\$ 8,512	\$ 152,760

The District is obligated under leases for equipment that are accounted for as capital leases. The future minimum lease payments under the capital leases include interest at rates of 3.6 percent to 4.3 percent together with the present value of the future minimum lease. The assets acquired under the capital lease had a capitalized cost of \$381,440 and \$381,446, at June 30, 2020 and 2019, respectively, and accumulated amortization of \$66,338 and \$33,169 as of June 30, 2020 and 2019, respectively.

Borrowing restrictions – Texas governmental hospitals have significant limitations on their ability to borrow funds. Generally, they are limited in the length of term for obligations to purchase equipment and severely restricted in their ability to borrow for working capital needs. Additionally, there are restrictions on their ability to pledge tax revenues to meet obligations more than one year in the future.

North Runnels County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

6. Net Patient Service Revenue:

The District recognizes patient service revenue associated with services provided to patients who have third-party payor coverage on the basis of contractual rates for the services rendered. For uninsured patients who do not qualify for charity care, the District recognizes revenue on the basis of its standard rates for services provided (or on the basis of discounted rates, if negotiated or provided by policy). On the basis of historical experience, a significant portion of the District's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the District records a significant provision for bad debts related to uninsured patients in the period the services are provided. The District's provisions for bad debts and writeoffs did not change significantly from the prior year. The District has not changed its charity care or uninsured discount policies during fiscal years 2020 or 2019. Patient service revenue, net of contractual adjustments and discounts (but before the provision for bad debts), recognized in the period from these major payor sources, is as follows:

	2020	2019
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 4,967,735	\$ 4,504,151
Medicaid	515,320	143,584
Blue Cross and other third-party payors	432,266	20,070,327
Patients	715,142	454,607
340b contract pharmacy	218,758	96,624
	6,849,221	25,269,293
Less:		
Charity care	159,453	(47,086)
Provision for bad debts	734,529	314,677
Net patient service revenue	\$ 5,955,239	\$ 25,001,702

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

- *Medicare* – The hospital has been designated a critical access hospital and rural health clinic by Medicare and is reimbursed for inpatient, outpatient, and clinic services on a cost basis as defined and limited by the Medicare program. The hospital is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the hospital and audits thereof by the Medicare administrative contractor. Home health services are reimbursed on a prospective rate per episode of care. Nursing home services are reimbursed on a prospective per day.

**North Runnels County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2020 and 2019**

6. Net Patient Service Revenue (continued):

- *Medicaid* – Inpatient acute care services rendered to Medicaid program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Most outpatient services are paid a blending of prospectively set amounts and on a cost basis, although some services such as laboratory and surgeries are paid based on a fee schedule. The hospital is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the hospital and audits thereof by Medicaid. There is no settlement if there is an amount due to the hospital, but payback is required by the hospital to Medicaid if an amount is due to Medicaid. Medicaid also pays a managed care amount to rural hospitals with fewer than 100 beds. The hospital is reimbursed at a tentative rate for managed care claims with a settlement determined after submission of the annual Medicare cost report. There is no payback required by the hospital to Medicaid for managed care services, but the hospital could receive an additional payment based on the settlement. Nursing home services are reimbursed based on a prospective daily rate.
- The District also has entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

Laws and regulations governing Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue decreased by approximately \$12,000 in 2020 and increased by approximately \$46,000 in 2019, due to the differences between the original estimates and final settlements.

The District provides charity care to patients who are financially unable to pay for the healthcare services they receive. The District's policy is not to pursue collection of amounts determined to qualify as charity care. Accordingly, the District does not report these amounts in net operating revenues or in the allowance for uncollectible accounts. The District determines the costs associated with providing charity care by aggregating the applicable direct and indirect costs, including salaries and wages, benefits, supplies, and other operating expenses, based on data from its costing system. The costs of caring for charity care patients for the years ended June 30, 2020 and 2019, were approximately \$194,000 and \$0, respectively. The District receives Medicaid supplemental funding for uncompensated care and tobacco settlement proceeds as disclosed in Note 1.

North Runnels County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2020 and 2019

7. Property Taxes:

Property taxes are levied by October 1 of each year in conformity with Subtitle E of the Texas Property Tax Code. Taxes are due on receipt of the tax statement and are delinquent if not paid before February 1 of the year following the year of assessment. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The District is authorized to levy a tax on property not to exceed \$.75 per \$100 valuation for the purpose of paying operating expenses and for debt service. The District's property tax rates were \$.003545 and \$.003545 per \$100 valuation and property tax revenue totaled \$1,027,662 and \$1,004,509 for 2020 and 2019, respectively. Taxes for fiscal years 2020 and 2019 were levied on property within the District having an assessed valuation of approximately \$291,493,000 and \$290,000,000, respectively.

8. Defined Contribution Pension Plan:

The District sponsors a defined contribution pension plan covering substantially all employees classified by the employer as full-time employees who have completed one year of eligible service. The plan name is North Runnels County Hospital District 457 Deferred Compensation Plan (the Plan). The Plan is administered by the District. The District's Board of Directors has the authority to amend the Plan. It is funded by voluntary monthly employee contributions in an amount up to 33 1/3 percent of the employee's compensation, not to exceed \$7,500. In addition, the District makes discretionary contributions equal to 1 percent of the compensation of the participant on a one dollar for two dollar basis with a 50 percent match of employee contributions of less than 2 percent. Pension expense is recorded for the amount of the District's contributions. District contributions to the Plan in future periods will be determined by board resolution. Defined contribution pension plan expense for the years ended June 30, 2020 and 2019, was approximately \$21,000 and \$19,000, respectively. Employee contributions to the Plan were approximately \$65,000 and \$69,000 for the years ended June 30, 2020 and 2019, respectively.

9. Contingencies:

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

Medical malpractice claims – The District is a unit of government covered by the Texas Tort Claims Act which, by statute, limits its liability to \$100,000 per person/\$300,000 per occurrence. These limits coincide with the malpractice insurance coverage maintained by the District. The District, from time to time, may be subject to claims and suits for other damages as well. In the opinion of management, the ultimate resolution of the above types of legal proceedings will not have a material effect on the District's financial position or results of operations.

No liability has been accrued for future coverage of acts, if any, occurring in this or prior years. Also, it is possible that claims may exceed coverage available in any given year.

**North Runnels County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2020 and 2019**

9. Contingencies (continued):

Industry regulations – The healthcare industry is subject to numerous laws and regulations of federal, state, and local governments. Recently, government activity has increased with respect to investigations and allegations concerning possible violations of various statutes and regulations by healthcare providers. Compliance with such laws and regulations can be subject to future government review and interpretation as well as regulatory actions unknown or unasserted at this time. Management believes the District is in compliance with fraud and abuse as well as other applicable government laws and regulations. If the District is found in violation of these laws, the District could be subject to substantial monetary fines, civil and criminal penalties, and exclusion from participation in the Medicare and Medicaid programs.

10. Concentrations of Credit Risk:

Patient accounts receivable – The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The majority of these patients are geographically concentrated in Winters, Texas, and North Runnels County, Texas.

	2020	2019
Medicare	51 %	10 %
Medicaid	16	1
Blue Cross	5	45
Other third-party payors	9	42
Patients	19	2
	100 %	100 %

Physicians – The District is dependent on local physicians practicing in its service area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on hospital operations.

**North Runnels County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2020 and 2019**

11. COVID-19 Pandemic:

The COVID-19 pandemic has created economic uncertainties which may negatively impact the District's financial position. The District has incurred additional direct costs for response to COVID-19 and has lost revenue due to the temporary discontinuance or reduction of service lines.

State and federal governments are providing emergency funding to help hospitals overcome these negative effects. The District received payments from the CARES Act Provider Relief Fund in the amount of \$4,120,956. The District recognized \$382,724 of CARES Act Provider Relief Funds for qualifying expenses in fiscal year 2020. Unearned CARES Act Provider Relief Funds are \$3,758,232 at June 30, 2020.

Medicare sequestration has been suspended from May 1, 2020 through December 31, 2020, increasing Medicare reimbursement by 2 percent.

State and federal governments are also considering additional emergency funding to help hospitals overcome these negative effects.

The ultimate COVID-19 pandemic effect on the District's financial position is unknown at this time.

12. Advanced Diagnostic Services and Aetna Life Insurance Company Settlement:

In August 2017, the District began offering advanced diagnostic services through satellite clinics in locations throughout East-Central Texas. The District had contracted with Stone Diagnostics (Stone), to provide these services. Stone provided all equipment, personnel, and supplies necessary to perform these services, for which they were paid a professional fee equal to 55 percent of net collections related to these services. TC Billing and Collection, LLC, was paid 6 percent of net collections for billing and collection services for the advanced diagnostic services. The District ceased providing these services in March 2019. The District paid \$3,750,000 to Aetna Life Insurance Company in fiscal year 2020 for settlement of overpayment of these services. The District is potentially liable for overpayment settlements with other insurance companies. Potential settlements, if any, cannot be estimated.

SUPPLEMENTAL SCHEDULES

North Runnels County Hospital District
Schedule of Divisional Statement of Net Position
June 30, 2020

ASSETS	Hospital	Nursing Home	Eliminations	Totals
<i>Current assets</i>				
Cash and cash equivalents	\$ 12,338,626	\$ 55	\$ -	\$ 12,338,681
Receivables:				-
Patient accounts, net of estimated uncollectibles	1,704,238	384,753	-	2,088,991
Taxes	31,111	-	-	31,111
Estimated third-party payor settlements	119,997	-	-	119,997
Due from nursing home	2,251,498	-	(2,251,498)	-
Inventories	215,463	-	-	215,463
Total current assets	16,660,933	384,808	(2,251,498)	14,794,243
<i>Noncurrent assets</i>				
Capital assets, net	2,549,367	990,389	-	3,539,756
Total assets	\$ 19,210,300	\$ 1,375,197	\$ (2,251,498)	\$ 18,333,999

See accompanying independent auditors' report.

North Runnels County Hospital District
Schedule of Divisional Statement of Net Position (Continued)
June 30, 2020

LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION	Hospital	Nursing Home	Eliminations	Totals
<i>Current liabilities</i>				
Accounts payable	\$ 278,330	\$ 58,452	\$ -	\$ 336,782
Accrued compensation and related liabilities	345,411	-	-	345,411
Unearned CARES Act Provider Relief Funds	3,817,384	-	-	3,817,384
Current maturities of long-term debt	50,281	-	-	50,281
Due to hospital	-	2,251,498	(2,251,498)	-
Total current liabilities	4,491,406	2,309,950	(2,251,498)	4,549,858
<i>Noncurrent liabilities</i>				
Long-term debt, less current maturities	93,967	-	-	93,967
Total liabilities	4,585,373	2,309,950	(2,251,498)	4,643,825
<i>Deferred inflow of resources, taxes</i>	258,000	-	-	258,000
<i>Net position</i>				
Net investment in capital assets	2,405,119	990,389	-	3,395,508
Unrestricted	11,961,809	(1,925,143)	-	10,036,666
Total net position	14,366,928	(934,754)	-	13,432,174
Total liabilities, deferred inflow of resources, and net position	\$ 19,210,301	\$ 1,375,196	\$ (2,251,498)	\$ 18,333,999

See accompanying independent auditors' report.

North Runnels County Hospital District
Schedule of Divisional Statement of Revenue, Expenses, and Changes in Net Position
Year End June 30, 2020

	Hospital	Nursing Home	Eliminations	Totals
<i>Operating revenues</i>				
Net patient service revenue	\$ 5,445,751	\$ 509,488	\$ -	\$ 5,955,239
Supplemental Medicaid funding	85,478	(62,243)	-	23,235
Other revenue	49,837	-	-	49,837
Total operating revenues	5,581,066	447,245	-	6,028,311
<i>Operating expenses</i>				
Salaries and wages	4,626,743	781,550	-	5,408,293
Employee benefits	868,661	118,982	-	987,643
Professional fees	1,382,425	204,010	-	1,586,435
Supplies	674,445	106,534	-	780,979
Depreciation and amortization	317,082	19,541	-	336,623
Repairs and maintenance	706,773	96,250	-	803,023
Utilities	165,663	31,150	-	196,813
Leases and rentals	66,760	2,638	-	69,398
Insurance	76,818	15,250	-	92,068
Other	378,686	6,095	-	384,781
Total operating expenses	9,264,056	1,382,000	-	10,646,056
Operating loss	(3,682,990)	(934,755)	-	(4,617,745)
<i>Nonoperating revenues (expenses)</i>				
Property taxes	1,044,004	-	-	1,044,004
Property tax collection expense	(37,421)	-	-	(37,421)
Tobacco settlement	18,878	-	-	18,878
Investment income	145,259	-	-	145,259
Interest expense	(12,639)	-	-	(12,639)
Gain on sale	3,000	-	-	3,000
CARES Act Provider Relief Funds	303,572	-	-	303,572
Total nonoperating revenues, net	1,464,653	-	-	1,464,653
<i>Advanced diagnostics services settlement</i>	<i>(3,750,000)</i>	<i>-</i>	<i>-</i>	<i>(3,750,000)</i>
Change in net position	(5,968,337)	(934,755)	-	(6,903,092)
Net position, beginning of year	20,335,266	-	-	20,335,266
Net position, end of year	\$ 14,366,929	\$ (934,755)	\$ -	\$ 13,432,174

See accompanying independent auditors' report.