

# **North Runnels County Hospital District**

**Basic Financial Statements and  
Independent Auditors' Report**

**June 30, 2018 and 2017**



**DINGUS | ZARECOR & ASSOCIATES** PLLC  
Certified Public Accountants

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DINGUS | ZARECOR & ASSOCIATES PLLC  
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, 2018 and 2017, 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, 2018 and 2017, 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.

## **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.

*Dingus, Zarecor & Associates PLLC*

Spokane Valley, Washington  
November 2, 2018

**North Runnels County Hospital District**  
**Statements of Net Position**  
**June 30, 2018 and 2017**

<b>ASSETS</b>	<b>2018</b>	<b>2017</b>
<i>Current assets</i>		
Cash and cash equivalents	\$ 9,599,664	\$ 4,096,340
Receivables:		
Patient accounts, net of estimated uncollectibles	4,905,292	389,637
Estimated third-party payor settlements	450,000	520,000
Taxes	48,139	67,586
Inventories	122,579	100,939
Prepaid expenses	-	20,694
Total current assets	15,125,674	5,195,196
<i>Noncurrent assets</i>		
Capital assets, net	2,754,080	2,342,874
<b>Total assets</b>	<b>\$ 17,879,754</b>	<b>\$ 7,538,070</b>

*See accompanying notes to basic financial statements.*

**North Runnels County Hospital District  
Statements of Net Position (Continued)  
June 30, 2018 and 2017**

<b>LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION</b>	<b>2018</b>	<b>2017</b>
<i>Current liabilities</i>		
Accounts payable	\$ 144,352	\$ 61,180
Professional fees payable for advanced diagnostic services	3,722,438	-
Accrued compensation and related liabilities	215,876	184,401
Current maturities of long-term debt	607,274	153,862
Total current liabilities	<b>4,689,940</b>	399,443
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	232,021	423,908
Total liabilities	<b>4,921,961</b>	823,351
<i>Deferred inflow of resources, taxes</i>	<b>238,000</b>	220,000
<i>Net position</i>		
Net investment in capital assets	1,914,785	1,765,104
Unrestricted	10,805,008	4,729,615
Total net position	<b>12,719,793</b>	6,494,719
<b>Total liabilities, deferred inflow of resources, and net position</b>	<b>\$ 17,879,754</b>	<b>\$ 7,538,070</b>

*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, 2018 and 2017**

	2018	2017
<i>Operating revenues</i>		
Net patient service revenue	\$ 20,840,885	\$ 4,186,423
Supplemental Medicaid funding	387,575	268,068
Other revenue	51,775	14,085
<b>Total operating revenues</b>	<b>21,280,235</b>	<b>4,468,576</b>
<i>Operating expenses</i>		
Salaries and wages	3,442,212	2,852,066
Employee benefits	681,746	634,291
Professional fees - advanced diagnostic services	9,615,506	-
Professional fees	837,262	935,826
Supplies	427,245	328,699
Depreciation and amortization	412,617	369,761
Repairs and maintenance	243,112	216,916
Utilities	77,376	85,238
Leases and rentals	35,665	31,469
Insurance	60,041	36,579
Other	150,376	152,131
<b>Total operating expenses</b>	<b>15,983,158</b>	<b>5,642,976</b>
<b>Operating income (loss)</b>	<b>5,297,077</b>	<b>(1,174,400)</b>
<i>Nonoperating revenues (expenses)</i>		
Property taxes	946,688	886,560
Property tax collection expense	(31,581)	(33,545)
Tobacco settlement	17,503	19,280
Investment income	14,375	9,722
Interest expense	(18,988)	(33,584)
Loss on disposal of property	-	(163,081)
<b>Total nonoperating revenues, net</b>	<b>927,997</b>	<b>685,352</b>
Change in net position before capital grants and contributions and extraordinary item	6,225,074	(489,048)
Capital grants and contributions	-	4,478
Extraordinary item - gain on insurance settlement net of building impairment loss of \$-0-	-	111,410
Change in net position	6,225,074	(373,160)
Net position, beginning of year	6,494,719	6,867,879
<b>Net position, end of year</b>	<b>\$ 12,719,793</b>	<b>\$ 6,494,719</b>

*See accompanying notes to basic financial statements.*

**North Runnels County Hospital District  
Statements of Cash Flows  
Years Ended June 30, 2018 and 2017**

	2018	2017
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 16,395,230	\$ 4,510,973
Supplemental Medicaid funding receipts	387,575	455,277
Other receipts	51,775	14,085
Payments to and on behalf of employees	(4,092,483)	(3,520,243)
Payments to suppliers and contractors	(7,641,919)	(1,806,485)
Net cash provided by (used in) operating activities	5,100,178	(346,393)
<i>Cash flows from noncapital financing activities</i>		
Property taxes	984,135	883,115
Property tax collection fee paid	(31,581)	(33,545)
Tobacco settlement	17,503	19,280
Net cash provided by noncapital financing activities	970,057	868,850
<i>Cash flows from capital and related financing activities</i>		
Principal payments on long-term debt	(119,921)	(135,938)
Interest paid	(18,988)	(33,584)
Purchase of capital assets	(442,377)	(294,920)
Proceeds from insurance settlement	-	111,410
Capital grants and contributions	-	4,478
Net cash used in capital and related financing activities	(581,286)	(348,554)
<i>Cash flows from investing activities</i>		
Investment income	14,375	9,722
Net increase in cash and cash equivalents	5,503,324	183,625
Cash and cash equivalents, beginning of year	4,096,340	3,912,715
<b>Cash and cash equivalents, end of year</b>	<b>\$ 9,599,664</b>	<b>\$ 4,096,340</b>

*See accompanying notes to basic financial statements.*



**North Runnels County Hospital District  
Statements of Cash Flows (Continued)  
Years Ended June 30, 2018 and 2017**

	2018	2017
<b><i>Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities</i></b>		
Operating income (loss)	\$ 5,297,077	\$ (1,174,400)
<i>Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities</i>		
Depreciation and amortization	412,617	369,761
Provision for bad debts	534,419	284,113
Decrease (increase) in assets:		
Receivables:		
Patient accounts	(5,050,074)	(16,563)
Estimated third-party payor settlements	70,000	57,000
Supplemental payments due from State	-	187,209
Inventories	(21,640)	(7,410)
Prepaid expenses	20,694	3,823
Increase (decrease) in liabilities:		
Accounts payable	83,172	(16,040)
Professional fees payable for advanced diagnostic services	3,722,438	-
Accrued compensation and related liabilities	31,475	(33,886)
<b><i>Net cash provided by (used in) operating activities</i></b>	<b>\$ 5,100,178</b>	<b>\$ (346,393)</b>

***Noncash Capital and Related Financial Activity***

During the year ended June 30, 2018, the District entered into a capital lease obligation of \$381,446.

*See accompanying notes to basic financial statements.*

**North Runnels County Hospital District  
Notes to Basic Financial Statements  
Years Ended June 30, 2018 and 2017**

**1. Reporting Entity and Summary of Significant Accounting Policies:**

**a. Reporting Entity**

North Runnels County Hospital District (the District), a critical access hospital located in Winters, Texas, 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, Texas. The District is responsible for indigent care of residents of the District as dictated by the law creating the District. The District provides inpatient, outpatient, and emergency care hospital services to patients in the District's jurisdiction. The District also operates a rural health clinic, home health agency, and ambulance services in the same geographic area.

In August 2017, the District began offering advanced diagnostic services through satellite clinics in locations throughout East-Central Texas. The District has contracted with Stone Diagnostics (Stone), to provide these services. Stone provides all equipment, personnel, and supplies necessary to perform these services, for which they are paid a professional fee equal to 55 percent of net collections related to these services. TCBilling and Collection, LLC, is paid 6 percent of net collections for billing and collection services for the advanced diagnostic 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.

*Prepaid expenses* – Prepaid expenses are expenses paid during the year relating to expenses incurred in future periods. Prepaid expenses are amortized over the expected benefit period of the related expense.

*Compensated absences* – District policies permit most employees to accumulate vacation and sick leave 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.

**North Runnels County Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended June 30, 2018 and 2017**

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

**b. Summary of Significant Accounting Policies (continued)**

*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, 2018 or 2017. *Unrestricted net position* is remaining net position that does not meet the definition of *net investment in capital assets* or *restricted net position*.

*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.

**North Runnels County Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended June 30, 2018 and 2017**

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

**b. Summary of Significant Accounting Policies (continued)**

*Upcoming accounting standards pronouncements* – In November 2016, the Governmental Accounting Standards Board (GASB) issued Statement No. 83, *Certain Asset Retirement Obligations*, which addresses accounting and financial reporting for certain asset retirement obligations (ARO). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. Specifically, this statement requires a government entity with legal obligations to perform future asset retirement activities related to its tangible capital assets to recognize a liability based on the guidance in this statement. This statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for ARO. The determination of when a liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event obligating a government entity to perform asset retirement activities. This statement requires the measurement of an ARO to be based on the best estimate of the current value of outlays expected to be incurred. The new guidance is effective for the District's year ending June 30, 2019, 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 2017, the 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 receivable and a deferred inflow of resources, 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, 2021, 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 March 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowing and Direct Placements*, to improve the information that is disclosed in governmental entity financial statements related to debt, including direct borrowing and direct placements. It also clarifies which liabilities government entities should include when disclosing information related to debt. The statement defines debt and requires additional essential information related to debt to be disclosed in the notes to financial statements, including unused lines of credit, assets pledged as collateral for the debt, and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses. This statement also requires that existing and additional information be provided for direct borrowings and direct placement of debt separately from other debt. The new guidance is effective for the District's year ending June 30, 2019, 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.

*Subsequent events* – Subsequent events have been reviewed through November 2, 2018, the date on which the financial statements were available to be issued.

**North Runnels County Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended June 30, 2018 and 2017**

**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.

None of the District's deposits were exposed to custodial credit risk because the investments pledged as collateral for the deposits in excess of Federal Deposit Insurance Corporation (FDIC) coverage were held in the name of the financial institution.

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 \$1,526,885 and \$25,350 invested in TexPool as of June 30, 2018 and 2017, 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, 2018 and 2017, was the investment in TexPool.

**North Runnels County Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended June 30, 2018 and 2017**

**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 increased significantly from the prior year, as a result of a higher balance of accounts receivable from these patients. 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:

	<b>2018</b>	<b>2017</b>
Receivable from patients and their insurance carriers	\$ 4,750,620	\$ 175,113
Receivable from Medicare	364,381	257,557
Receivable from Medicaid	13,291	12,681
Total patient accounts receivable	<b>5,128,292</b>	445,351
Less allowance for uncollectible accounts	(223,000)	(55,714)
<b>Patient accounts receivable, net</b>	<b>\$ 4,905,292</b>	<b>\$ 389,637</b>

**4. Insurance Proceeds:**

During the year ended June 30, 2016, the District determined that there was sufficient evidence of impairment due to hail damage to write down the reported value of a portion of the roof recorded by the District as part of the building. During the year ended June 30, 2016, the recorded value was written down by \$6,927, the net book value of the damaged roof and an impairment loss was recognized net of the estimated insurance settlement of \$42,036. Additional insurance proceeds of \$111,410 were received in the year ended June 30, 2017, and are presented as a gain on insurance settlement.

**North Runnels County Hospital District**  
**Notes to Basic Financial Statements (Continued)**  
**Years Ended June 30, 2018 and 2017**

**5. 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:

	<b>Balance June 30, 2017</b>	<b>Additions</b>	<b>Retirements</b>	<b>Transfers</b>	<b>Balance June 30, 2018</b>
<i>Capital assets not being depreciated</i>					
Land	\$ 17,311	\$ -	\$ -	\$ -	\$ 17,311
Construction in progress	5,627	110,994	-	(5,627)	110,994
Total capital assets not being depreciated	22,938	110,994	-	(5,627)	128,305
<i>Capital assets being depreciated</i>					
Building and improvements	2,053,204	128,444	-	-	2,181,648
Equipment	2,367,649	584,385	(25,238)	5,627	2,932,423
Total capital assets being depreciated	4,420,853	712,829	(25,238)	5,627	5,114,071
<i>Less accumulated depreciation for</i>					
Building and improvements	(814,746)	(69,032)	8,848	-	(874,930)
Equipment	(1,286,171)	(343,585)	16,390	-	(1,613,366)
Total accumulated depreciation	(2,100,917)	(412,617)	25,238	-	(2,488,296)
Total capital assets being depreciated, net	2,319,936	300,212	-	5,627	2,625,775
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 2,342,874</b>	<b>\$ 411,206</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 2,754,080</b>

**North Runnels County Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended June 30, 2018 and 2017**

**5. Capital Assets (continued):**

	Balance June 30, 2016	Additions	Retirements	Transfers	Balance June 30, 2017
<i>Capital assets not being depreciated</i>					
Land	\$ 17,311	\$ -	\$ -	\$ -	\$ 17,311
Construction in progress	138,869	5,627	(128,869)	(10,000)	5,627
Total capital assets not being depreciated	156,180	5,627	(128,869)	(10,000)	22,938
<i>Capital assets being depreciated</i>					
Building and improvements	1,952,524	272,187	(171,507)	-	2,053,204
Equipment	3,372,304	17,105	(1,031,760)	10,000	2,367,649
Total capital assets being depreciated	5,324,828	289,292	(1,203,267)	10,000	4,420,853
<i>Less accumulated depreciation for</i>					
Building and improvements	(928,777)	(49,437)	163,468	-	(814,746)
Equipment	(1,971,435)	(320,324)	1,005,588	-	(1,286,171)
Total accumulated depreciation	(2,900,212)	(369,761)	1,169,056	-	(2,100,917)
Total capital assets being depreciated, net	2,424,616	(80,469)	(34,211)	10,000	2,319,936
<b>Capital assets, net of accumulated depreciation</b>	<b>\$ 2,580,796</b>	<b>\$ (74,842)</b>	<b>\$ (163,080)</b>	<b>\$ -</b>	<b>\$ 2,342,874</b>

As of June 30, 2018, significant construction in progress consisted of building construction. Estimated cost of completion is approximately \$175,000 and is expected to be completed in March 2019.

**6. Long-term Debt:**

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

	Balance June 30, 2017	Additions	Reductions	Balance June 30, 2018	Amounts Due Within One Year
Capital lease obligations	\$ 577,770	\$ 381,446	\$ (119,921)	\$ 839,295	\$ 607,274
	Balance June 30, 2016	Additions	Reductions	Balance June 30, 2017	Amounts Due Within One Year
Capital lease obligations	\$ 713,708	\$ -	\$ (135,938)	\$ 577,770	\$ 153,862



**North Runnels County Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended June 30, 2018 and 2017**

**6. Long-term Debt (continued):**

Scheduled principal and interest payments are as follows:

<b>Years Ending June 30,</b>	<b>Capital Lease Obligations</b>		
	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2019	\$ 607,274	\$ 11,456	\$ 618,730
2020	83,673	7,428	91,101
2021	50,112	5,056	55,168
2022	52,150	3,021	55,171
2023	43,613	922	44,535
2024	2,473	9	2,482
	<b>\$ 839,295</b>	<b>\$ 27,892</b>	<b>\$ 867,187</b>

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 1.6 percent to 5.1 percent together with the present value of the future minimum lease. The assets acquired under the capital lease had a capitalized cost of \$1,171,996 and \$790,550, at June 30, 2018 and 2017, respectively, and accumulated amortization of \$442,492 and \$257,598 as of June 30, 2018 and 2017, 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, 2018 and 2017**

**7. 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 increased significantly from the prior year due to a significant increase in patient volumes, as a result of the advanced diagnostic services offered by the District, as described in Note 1. The District has not changed its charity care or uninsured discount policies during fiscal years 2018 or 2017. 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:

	<b>2018</b>	<b>2017</b>
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 4,091,054	\$ 3,286,329
Medicaid	137,508	119,908
Blue Cross and other third-party payors	17,214,186	790,881
Patients	463,629	298,597
340b contract pharmacy	165,934	-
	<b>22,072,311</b>	<b>4,495,715</b>
Less:		
Charity care	697,007	25,179
Provision for bad debts	534,419	284,113
<b>Net patient service revenue</b>	<b>\$ 20,840,885</b>	<b>\$ 4,186,423</b>

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 District 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 District is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor. Home health services are reimbursed on a prospective rate per episode of care.

**North Runnels County Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended June 30, 2018 and 2017**

**7. 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 District is reimbursed for cost-reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by Medicaid. There is no settlement if there is an amount due to the District, but payback is required by the District 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 District 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 District to Medicaid for managed care services, but the District could receive an additional payment based on the settlement.
- 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 increased by approximately \$87,000 in 2018 and decreased by approximately \$50,000 in 2017 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, 2018 and 2017, were approximately \$380,000 and \$26,000, respectively. The District receives Medicaid supplemental funding for uncompensated care as disclosed in Note 8.

**North Runnels County Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended June 30, 2018 and 2017**

**8. Supplemental Medicaid Funding:**

In 2012, the United States Department of Health & Human Services approved a Medicaid Section 1115(a) demonstration entitled “Texas Health Transformation and Quality Improvement Program.” This demonstration expands existing Medicaid managed care programs and establishes two funding pools that will assist providers with uncompensated care costs and promote health system transformation. The demonstration was effective from December 12, 2011 to September 30, 2016. In 2016, a 15-month extension of the demonstration was granted, from October 1, 2016 to December 31, 2017. In 2017, a 57-month extension of the demonstration was granted, from January 1, 2018 to September 30, 2022.

A summary of funds received through this program is as follows:

	<b>2018</b>	<b>2017</b>
Delivery System Reform Incentive Payment Pool	\$ 226,610	\$ 198,131
Uncompensated Care Pools	160,965	69,937
<b>Supplemental Medicaid Funding</b>	<b>\$ 387,575</b>	<b>\$ 268,068</b>

**9. 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 \$.3852 and \$.4203 per \$100 valuation and property tax revenue totaled \$950,860 and \$952,336 for 2018 and 2017, respectively. Taxes for fiscal years 2018 and 2017 were levied on property within the District having an assessed valuation of approximately \$226,000,000 and \$206,000,000, respectively.

**10. 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, 2018 and 2017, was approximately \$18,000 and \$10,000, respectively. Employee contributions to the Plan were approximately \$78,000 and \$58,000 for the years ended June 30, 2018 and 2017, respectively.

**North Runnels County Hospital District  
Notes to Basic Financial Statements (Continued)  
Years Ended June 30, 2018 and 2017**

**11. 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.

**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.

**12. 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.

	<b>2018</b>	<b>2017</b>
Medicare	4 %	54 %
Medicaid	1	5
Blue Cross	48	16
Other third-party payors	44	12
Patients	3	13
	<b>100 %</b>	<b>100 %</b>

**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.