

North Runnels County Hospital District

Basic Financial Statements and
Independent Auditors' Reports

June 30, 2021 and 2020



DINGUS | ZARECOR & ASSOCIATES PLLC
Certified Public Accountants

**North Runnels County Hospital District
Table of Contents**

	Page
<i>INDEPENDENT AUDITORS' REPORT</i>	1-3
<i>BASIC FINANCIAL STATEMENTS:</i>	
Statements of net position	4-5
Statements of revenues, expenses, and changes in net position	6
Statements of cash flows	7-8
Notes to basic financial statements	9-20
<i>SUPPLEMENTAL SCHEDULES</i>	
Schedule of divisional statement of net position	21-22
Schedule of divisional statement of revenues, expenses, and changes in net position	23
<i>SINGLE AUDIT:</i>	
AUDITORS' SECTION:	
<i>INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS</i>	24-25
<i>INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE</i>	26-28
Schedule of audit findings and questioned costs	29-33
AUDITEE'S SECTION:	
Schedule of expenditures of federal awards	34
Corrective action plan	35-36
Summary schedule of prior audit findings	37



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INDEPENDENT AUDITORS' REPORT

Board of Directors
North Runnels County Hospital District
Winters, Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of North Runnels County Hospital District, (the District) as of and for the years ended June 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of June 30, 2021 and 2020, 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS and *Government Auditing Standards* will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements, including omissions, are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Management has not presented 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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying 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 not a required part of the financial statements. The accompanying schedule of expenditures of federal awards, as required by Uniform Guidance, is also presented for purposes of additional analysis and is not a required part of the 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. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 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 information is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 3, 2023, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters for the year ended June 30, 2021. The purpose of this report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
February 3, 2023

North Runnels County Hospital District
Statements of Net Position
June 30, 2021 and 2020

ASSETS	2021	2020
<i>Current assets</i>		
Cash and cash equivalents	\$ 1,970,840	\$ 12,338,681
Receivables:		
Patient accounts, net of estimated uncollectibles	3,389,797	2,088,991
Estimated third-party payor settlements	-	119,997
Taxes	27,796	31,111
Inventories	270,502	215,463
Total current assets	5,658,935	14,794,243
<i>Noncurrent assets</i>		
Capital assets, net	3,836,660	3,539,756
Total assets	\$ 9,495,595	\$ 18,333,999

See accompanying notes to basic financial statements.

**North Runnels County Hospital District
Statements of Net Position (Continued)
June 30, 2021 and 2020**

LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION	2021	2020
<i>Current liabilities</i>		
Accounts payable	\$ 348,956	\$ 336,782
Accrued compensation and related liabilities	510,109	345,411
Unearned CARES Act Provider Relief Funds	-	3,817,384
Estimated third-party payor settlements	1,075,066	-
Current maturities of long-term debt	52,323	50,281
Total current liabilities	1,986,454	4,549,858
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	41,643	93,967
Total liabilities	2,028,097	4,643,825
<i>Deferred inflow of resources, taxes</i>	265,000	258,000
<i>Net position</i>		
Net investment in capital assets	3,742,694	3,395,508
Unrestricted	3,459,804	10,036,666
Total net position	7,202,498	13,432,174
Total liabilities, deferred inflow of resources, and net position	\$ 9,495,595	\$ 18,333,999

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, 2021 and 2020

	2021	2020
<i>Operating revenues</i>		
Net patient service revenue	\$ 9,267,388	\$ 5,978,474
Other revenue	47,596	49,837
Total operating revenues	9,314,984	6,028,311
<i>Operating expenses</i>		
Salaries and wages	6,652,177	5,408,293
Employee benefits	1,229,041	987,643
Professional fees	2,488,651	1,586,435
Supplies	1,136,292	780,979
Depreciation and amortization	369,244	336,623
Repairs and maintenance	588,308	803,023
Utilities	280,813	196,813
Leases and rentals	86,576	69,398
Insurance	119,245	92,068
Other	720,577	384,781
Total operating expenses	13,670,924	10,646,056
Operating loss	(4,355,940)	(4,617,745)
<i>Nonoperating revenues (expenses)</i>		
Property taxes	1,069,880	1,044,004
Property tax collection expense	(40,865)	(37,421)
Tobacco settlement	19,445	18,878
Investment income	11,740	145,259
Interest expense	(9,134)	(12,639)
Gain on disposal of assets	-	3,000
CARES Act Provider Relief Fund	3,997,284	303,572
Total nonoperating revenues, net	5,048,350	1,464,653
<i>Advanced diagnostics services settlement</i>	(6,922,086)	(3,750,000)
Change in net position	(6,229,676)	(6,903,092)
Net position, beginning of year	13,432,174	20,335,266
Net position, end of year	\$ 7,202,498	\$ 13,432,174

See accompanying notes to basic financial statements.

**North Runnels County Hospital District
Statements of Cash Flows
Years Ended June 30, 2021 and 2020**

	2021	2020
<i>Increase (Decrease) in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 9,161,645	\$ 5,264,135
Other receipts	47,596	49,837
Payments to and on behalf of employees	(7,716,520)	(6,297,078)
Payments to suppliers and contractors	(5,463,327)	(3,811,132)
Advanced diagnostics services settlement	(6,922,086)	(3,750,000)
Net cash from operating activities	(10,892,692)	(8,544,238)
<i>Cash flows from noncapital financing activities</i>		
Property taxes	1,080,195	1,043,432
Property tax collection fee paid	(40,865)	(37,421)
Tobacco settlement	19,445	18,878
CARES Act Provider Relief Fund	179,900	4,120,956
Net cash from noncapital financing activities	1,238,675	5,145,845
<i>Cash flows from capital and related financing activities</i>		
Principal payments on long-term debt	(50,281)	(87,773)
Interest paid	(9,134)	(12,639)
Purchase of capital assets	(666,149)	(1,273,159)
Net cash from capital and related financing activities	(725,564)	(1,373,571)
<i>Cash flows from investing activities</i>		
Investment income	11,740	145,259
Net decrease in cash and cash equivalents	(10,367,841)	(4,626,705)
Cash and cash equivalents, beginning of year	12,338,681	16,965,386
Cash and cash equivalents, end of year	\$ 1,970,840	\$ 12,338,681

See accompanying notes to basic financial statements.

**North Runnels County Hospital District
Statements of Cash Flows (Continued)
Years Ended June 30, 2021 and 2020**

	2021	2020
Reconciliation of Operating Loss to Net Cash From Operating Activities		
Operating loss	\$ (4,355,940)	\$ (4,617,745)
<i>Adjustments to reconcile operating loss to net cash from operating activities</i>		
Depreciation and amortization	369,244	336,623
Provision for bad debts	850,451	734,529
Advanced diagnostics services settlement	(6,922,086)	(3,750,000)
(Increase) decrease in assets:		
Receivables:		
Patient accounts	(2,151,257)	(1,328,871)
Estimated third-party payor settlements	119,997	(119,997)
Inventories	(55,039)	(62,038)
Increase (decrease) in liabilities:		
Accounts payable	12,174	264,403
Accrued compensation and related liabilities	164,698	98,858
Estimated third-party payor settlements	1,075,066	-
Professional fees payable for advanced diagnostics services	-	(100,000)
Net cash from operating activities	\$ (10,892,692)	\$ (8,544,238)

See accompanying notes to basic financial statements.

**North Runnels County Hospital District
Notes to Basic Financial Statements
Years Ended June 30, 2021 and 2020**

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, 2021 or 2020. *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, 2021 and 2020**

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, 2021 and 2020**

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

b. Summary of Significant Accounting Policies (continued)

In May 2020, the GASB issued Statement No. 96, *Subscription-Based Information Technology Arrangements*. The objectives of this statement are to (1) define a subscription-based information technology arrangement (SBITA); (2) establish that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provide the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) require note disclosures regarding a SBITA. The new guidance is effective for the District’s year ending June 30, 2023. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

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, included with cash and cash equivalents, of \$1,485,866 and \$10,399,817 invested in TexPool as of June 30, 2021 and 2020, 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.

**North Runnels County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2021 and 2020**

2. Bank Deposits and Investments (continued):

- *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, 2021 and 2020, was the investment in TexPool.

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.

**North Runnels County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2021 and 2020**

3. Patient Accounts Receivable (continued):

Patient accounts receivable reported as current assets were as follows:

	2021	2020
Receivable from patients and their insurance carriers	\$ 1,005,877	\$ 540,568
Receivable from Medicare	2,498,950	1,686,277
Receivable from Medicaid	577,390	235,146
Total patient accounts receivable	4,082,217	2,461,991
Less allowance for uncollectible accounts	(692,420)	(373,000)
Patient accounts receivable, net	\$ 3,389,797	\$ 2,088,991

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

North Runnels County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2021 and 2020

4. Capital Assets (continued):

Capital asset activity follows:

	Balance June 30, 2020	Additions	Retirements	Transfers	Balance June 30, 2021
<i>Capital assets not being depreciated</i>					
Land	\$ 25,961	\$ 30,000	\$ -	\$ -	\$ 55,961
Construction in progress	141,951	311,961	-	(453,912)	-
Total capital assets not being depreciated	167,912	341,961	-	(453,912)	55,961
<i>Capital assets being depreciated</i>					
Building and improvements	3,377,495	20,000	-	148,296	3,545,791
Equipment	2,789,354	304,187	(393,180)	305,616	3,005,977
Total capital assets being depreciated	6,166,849	324,187	(393,180)	453,912	6,551,768
<i>Less accumulated depreciation for</i>					
Building and improvements	(998,489)	(116,513)	-	-	(1,115,002)
Equipment	(1,796,516)	(252,731)	393,180	-	(1,656,067)
Total accumulated depreciation	(2,795,005)	(369,244)	393,180	-	(2,771,069)
Total capital assets being depreciated, net	3,371,844	(45,057)	-	453,912	3,780,699
Capital assets, net of accumulated depreciation	\$ 3,539,756	\$ 296,904	\$ -	\$ -	\$ 3,836,660
<hr/>					
	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, 2021 and 2020

5. Long-term Debt:

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

	Balance June 30, 2020	Additions	Principal Payments	Balance June 30, 2021	Amounts Due Within One Year
Capital lease obligations	\$ 144,248	\$ -	\$ (50,282)	\$ 93,966	\$ 52,323

	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

Scheduled principal and interest payments are as follows:

Years Ending June 30,	Capital Lease Obligations		
	Principal	Interest	Total
2022	\$ 52,323	\$ 2,848	\$ 55,171
2023	41,643	774	42,417
	\$ 93,966	\$ 3,622	\$ 97,588

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 at June 30, 2021 and 2020, and accumulated amortization of \$99,508 and \$66,338 as of June 30, 2021 and 2020, 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, 2021 and 2020

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 2021 or 2020. 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:

	2021	2020
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 7,439,175	\$ 4,967,735
Medicaid	775,332	538,555
Blue Cross and other third-party payors	406,845	432,266
Patients	1,331,561	715,142
340B contract pharmacy	343,312	218,758
	10,296,225	6,872,456
Less:		
Charity care	178,386	159,453
Provision for bad debts	850,451	734,529
Net patient service revenue	\$ 9,267,388	\$ 5,978,474

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, 2021 and 2020

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 increased by approximately \$579,000 in 2021 and decreased by approximately \$12,000 in 2020, 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, 2021 and 2020, were approximately \$186,000 and \$194,000, 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, 2021 and 2020**

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 \$.003636 and \$.003545 per \$100 valuation and property tax revenue totaled \$1,069,880 and \$1,044,004 for 2021 and 2020, respectively. Taxes for fiscal years 2021 and 2020 were levied on property within the District having an assessed valuation of approximately \$293,486,000 and \$291,493,000, 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 \$1 for \$2 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, 2021 and 2020, was approximately \$22,000 and \$21,000, respectively. Employee contributions to the Plan were approximately \$55,000 and \$65,000 for the years ended June 30, 2021 and 2020, 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, 2021 and 2020**

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.

	2021	2020
Medicare	50 %	51 %
Medicaid	16	16
Blue Cross	7	5
Other third-party payors	13	9
Patients	14	19
	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, 2021 and 2020**

11. Advanced Diagnostic Services and Settlements:

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 \$6,922,086 and \$3,750,000 in fiscal year 2021 and 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.

12. CARES Act Provider Relief Fund:

The District received \$179,900 and \$4,120,956 of funding from the CARES Act Provider Relief Fund for the years ended June 30, 2021 and 2020, respectively. These funds are required to be used to reimburse the District for healthcare-related expenses or lost revenues that are attributable to coronavirus. The District has recorded these funds as unearned grant revenue until eligible expenses or lost revenues are recognized. During the years ended June 30, 2021 and 2020, the District recognized \$3,997,284 and \$303,572 as revenue, respectively.

SUPPLEMENTAL SCHEDULES

**North Runnels County Hospital District
Schedule of Divisional Statement of Net Position
June 30, 2021**

ASSETS	Hospital	Nursing Home	Eliminations	Totals
<i>Current assets</i>				
Cash and cash equivalents	\$ 1,910,838	\$ 60,002	\$ -	\$ 1,970,840
Receivables:				-
Patient accounts, net of estimated uncollectibles	2,565,929	823,868	-	3,389,797
Taxes	27,796	-	-	27,796
Inventories	270,502	-	-	270,502
Total current assets	4,775,065	883,870	-	5,658,935
<i>Noncurrent assets</i>				
Capital assets, net	2,758,746	1,077,914	-	3,836,660
Total assets	\$ 7,533,811	\$ 1,961,784	\$ -	\$ 9,495,595

See accompanying independent auditors' report.

North Runnels County Hospital District
Schedule of Divisional Statement of Net Position (Continued)
June 30, 2021

LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION	Hospital	Nursing Home	Eliminations	Totals
<i>Current liabilities</i>				
Accounts payable	\$ 265,327	\$ 83,629	\$ -	\$ 348,956
Accrued compensation and related liabilities	510,135	(26)	-	510,109
Estimated third-party payor settlements	1,075,066	-	-	1,075,066
Current maturities of long-term debt	52,323	-	-	52,323
Total current liabilities	1,902,851	83,603	-	1,986,454
<i>Noncurrent liabilities</i>				
Long-term debt, less current maturities	41,643	-	-	41,643
Total liabilities	1,944,494	83,603	-	2,028,097
<i>Deferred inflow of resources, taxes</i>	265,000	-	-	265,000
<i>Net position</i>				
Net investment in capital assets	2,664,780	1,077,914	-	3,742,694
Unrestricted	2,659,537	800,267	-	3,459,804
Total net position	5,324,317	1,878,181	-	7,202,498
Total liabilities, deferred inflow of resources, and net position	\$ 7,533,811	\$ 1,961,784	\$ -	\$ 9,495,595

See accompanying independent auditors' report.

North Runnels County Hospital District
Schedule of Divisional Statement of Revenues, Expenses, and Changes in Net Position
Year End June 30, 2021

	Hospital	Nursing Home	Eliminations	Totals
<i>Operating revenues</i>				
Net patient service revenue	\$ 8,325,303	\$ 942,085	\$ -	\$ 9,267,388
Other revenue	46,618	978	-	47,596
Total operating revenues	8,371,921	943,063	-	9,314,984
<i>Operating expenses</i>				
Salaries and wages	5,390,249	1,261,928	-	6,652,177
Employee benefits	1,024,494	204,547	-	1,229,041
Professional fees	1,805,884	682,767	-	2,488,651
Supplies	939,299	196,993	-	1,136,292
Depreciation and amortization	328,990	40,254	-	369,244
Repairs and maintenance	457,697	130,611	-	588,308
Utilities	201,571	79,242	-	280,813
Leases and rentals	70,914	15,662	-	86,576
Insurance	113,145	6,100	-	119,245
Other	700,137	20,440	-	720,577
Total operating expenses	11,032,380	2,638,544	-	13,670,924
Operating loss	(2,660,459)	(1,695,481)	-	(4,355,940)
<i>Nonoperating revenues (expenses)</i>				
Property taxes	1,069,880	-	-	1,069,880
Property tax collection expense	(40,865)	-	-	(40,865)
Tobacco settlement	19,445	-	-	19,445
Investment income	11,740	-	-	11,740
Interest expense	(9,134)	-	-	(9,134)
CARES Act Provider Relief Funds	3,917,684	79,600	-	3,997,284
Total nonoperating revenues, net	4,968,750	79,600	-	5,048,350
<i>Advanced diagnostics services settlement</i>	<i>(6,922,086)</i>	<i>-</i>	<i>-</i>	<i>(6,922,086)</i>
<i>Transfers</i>	<i>4,428,815</i>	<i>(4,428,815)</i>	<i>-</i>	<i>-</i>
Change in net position	(9,042,610)	2,812,934	-	(6,229,676)
Net position, beginning of year	14,366,927	(934,753)	-	13,432,174
Net position, end of year	\$ 5,324,317	\$ 1,878,181	\$ -	\$ 7,202,498

See accompanying independent auditors' report.

SINGLE AUDIT

AUDITORS' SECTION



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Board of Directors
North Runnels County Hospital District
Winters, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of North Runnels County Hospital District (the District), as of and for the year ended June 30, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements and have issued our report thereon dated February 3, 2023.

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the combined basic financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We identified certain deficiencies in internal control, described in the accompanying schedule of audit findings and questioned costs as items 2021-001, 2021-002, and 2021-003 that we consider to be material weaknesses.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts and grant agreements, noncompliance with which could have a direct and material effect on the financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

The District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit as described in the accompanying schedule of audit findings and questioned costs. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
February 3, 2023



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Board of Directors
North Runnels County Hospital District
Winters, Texas

Report on Compliance for Each Major Federal Program

Qualified Opinion

We have audited North Runnels County Hospital District (the District) compliance with the types of compliance requirements identified as subject to audit in the OMB *Compliance Supplement* that could have a direct and material effect on the District's major federal program for the year ended June 30, 2021. The District's major federal program is identified in the summary of auditors' results section of the accompanying schedule of audit findings and questioned costs.

Qualified Opinion on Federal Assistance Listing Number 93.498 Provider Relief Fund and American Rescue Plan (ARP) Distributions

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion section of our report, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on the major federal program for the year ended June 30, 2021.

Basis for Qualified Opinion on The Major Federal Program

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America (GAAS); the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States (*Government Auditing Standards*); and the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditors' Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion on compliance for its major federal program. Our audit does not provide a legal determination of the District's compliance with the compliance requirements referred to above.

Matter Giving Rise to Qualified Opinion on Federal Assistance Listing Number 93.498 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

As described in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding Federal Assistance Listing Number 93.498 Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution, as described in finding number 2021-004 for Allowable Costs.

Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to the program.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules, and provisions of contracts or grant agreements applicable to the District's federal programs.

Auditors' Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the District's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material, if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the District's compliance with the requirements of its major federal program as a whole.

In performing an audit in accordance with GAAS, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the District's compliance with the compliance requirements referred to above and performing such other procedures as we considered necessary in the circumstances.
- Obtain an understanding of the District's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control Over Compliance

Our consideration of internal control over compliance was for the limited purpose described in the Auditors' Responsibilities for the Audit of Compliance section above and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies in internal control over compliance and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we did identify certain deficiencies in internal control over compliance that we consider to be a material weakness.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiency in internal control over compliance described in the accompanying schedule of audit findings and questioned costs as item 2021-004 to be a material weakness.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion is expressed.

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the noncompliance findings identified in our audit described in the accompanying schedule of audit findings and questioned costs. The District's response was not subjected to the other auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Purpose of this Report

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington

February 3, 2023

**North Runnels County Hospital District
 Schedule of Audit Findings and Questioned Costs
 Year End June 30, 2021**

Section I – Summary of Auditors’ Results:

Financial Statements:

Unmodified

Type of auditors’ report issued:

Internal control over financial reporting:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes no

Noncompliance material to financial statements noted? yes no

Federal Awards:

Internal control over major federal programs:

- Material weakness(es) identified? yes no
- Significant deficiency(ies) identified? yes no

Type of auditors’ report issued on compliance for major federal program: *Qualified*

Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)? yes no

Identification of major federal program:

<i>Federal Assistance Listing Number</i>	<i>Name of Federal Program of Cluster</i>
93.498	Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution

Dollar threshold used to distinguish between type A and type B programs: \$750,000

Auditee qualified as low-risk auditee? yes no

**North Runnels County Hospital District
Schedule of Audit Findings and Questioned Costs (Continued)
Year End June 30, 2021**

Section II – Financial Statement Findings

2021-001 Control Environment

Significant Deficiency Material Weakness Material Noncompliance

Other Noncompliance

<i>Criteria</i>	Those charged with governance are to provide oversight of financial reporting. Senior management and department managers need accurate and timely financial reporting to manage the District.
<i>Condition</i>	Complete monthly and year-to-date statements of revenues, expenses, and changes in net position with comparisons to prior period and budget were not being provided to the Board of Directors on a monthly basis during fiscal year 2021. The nursing home division financial statements were not being provided. Also, reporting of nursing home, imaging, laboratory, and respiratory therapy utilization statistics were not being provided to the Board of Directors on a monthly basis during fiscal year 2021.
<i>Context</i>	This finding appears to be a <i>systemic</i> problem.
<i>Effect</i>	The Board of Directors was not receiving accurate and timely financial reporting to perform their functions.
<i>Cause</i>	The District added the nursing home division and has not devoted adequate resources to providing accurate and timely financial statements for the nursing home division.
<i>Recommendation</i>	The District should provide complete financial reporting monthly. The financial reporting should include both the hospital and nursing home divisions; budget to actual reporting; and utilization metrics for each service line and department.
<i>Views of responsible officials and planned corrective action</i>	Financial statements for the hospital division were caught up in August 2022. The financial statements for the nursing home division will be provided to the Board of Directors starting in February 2023. The nursing home division financial statements had not been provided due to lack of contractual adjustments on the books to net the receivables to their estimated values. A contractual spreadsheet for the nursing home division has been developed.

**North Runnels County Hospital District
Schedule of Audit Findings and Questioned Costs (Continued)
Year End June 30, 2021**

Section II – Financial Statement Findings

2021-002

Account Reconciliations and Auditor-Detected Journal Entries

Significant Deficiency Material Weakness Compliance Finding

Criteria

Statement of net position accounts need to be reconciled monthly for hospital and nursing home divisions.

Condition

We noted multiple hospital and nursing home statement of net position accounts that were not reconciled to supporting calculations at year end.

Context

This finding appears to be a *systemic* problem.

Effect

Complete, accurate, and timely financial information was not available to the Board of Directors and senior management for oversight and decision-making.

Cause

The District did not provide adequate resources to the financial reporting function.

Recommendation

Performing reconciliations on a regular basis and adjusting general ledger accounts to the reconciled balance is important in preventing financial statement misstatement. We recommend adjusting all statement of net position accounts to the reconciled balance on a monthly basis.

Views of responsible officials and planned corrective action

Reconciliations are being transitioned over to the Chief Financial Officer (CFO) position. These reconciliations will be in place no later than March 2023.

**North Runnels County Hospital District
 Schedule of Audit Findings and Questioned Costs (Continued)
 Year End June 30, 2021**

Section II – Financial Statement Findings

2021-003	Policy and Procedures
	[] Significant Deficiency [X] Material Weakness [] Compliance Finding
<i>Criteria</i>	The District should have policy and procedures and other measures put in place to reasonably assure their financial operations follow generally accepted accounting principles.
<i>Condition</i>	The District lacks written policies and procedures related to several key areas of its financial reporting cycle, including accounts payable, cash disbursements, payroll cycle and federal awards.
<i>Context</i>	This finding appears to be a <i>systemic</i> problem.
<i>Effect</i>	The lack of written policies and procedures increases the risk errors will be made and not detected in the event of a turnover in the accounting department.
<i>Cause</i>	The District has not provided adequate resources to internal controls over the financial reporting process.
<i>Recommendation</i>	We recommend the District create written policies and procedures to ensure accounting transactions are consistently recorded.
<i>Views of responsible officials and planned corrective action</i>	The District signed a contract with a management company in July 2022 and hired a CFO in June 2022. This should give the District sufficient resources to get the Policies and Procedures developed and functional.

**North Runnels County Hospital District
Schedule of Audit Findings and Questioned Costs (Continued)
Year End June 30, 2021**

Section III – Federal Award Findings and Questioned Costs

2021-004	Lost Revenue Calculation
<i>Federal Agency</i>	Department of Health and Human Services
<i>Assistance Listing Number</i>	93.498 – Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution
<i>Criteria</i>	[] Significant Deficiency [X] Material Weakness [X] Compliance Finding Under the terms and conditions of the award, the recipient is to use either qualifying expenses or lost revenue for claiming the Provider Relief Funds.
<i>Condition</i>	The District’s lost revenue calculation overstated 2019 net patient service revenue by including Advanced Diagnostic revenue that was returned in 2020 and 2021. The District’s lost revenue calculation overstated their lost revenue.
<i>Context</i>	This finding appears to be an isolated instance.
<i>Effect</i>	The District did not have sufficient lost revenue to claim for retention of the Provider Relief Funds. The District does have sufficient qualifying expenses to retain the Provider Relief Funds. HRSA does not allow for the amendment of reports once the due date has passed.
<i>Cause</i>	The District had significant management turnover in 2021 during the reporting period and Advanced Diagnostic revenue issue was not known by all that were involved in the reporting.
<i>Recommendation</i>	We recommend the District retain the qualifying expenses documentation that supports the retention of the Provider Relief Funds and amend the next Provider Relief Fund reporting due to HRSA.
<i>Views of responsible officials and planned corrective action</i>	The District has gathered the qualifying expenses that demonstrate that the District can retain the Provider Relief Funding. The District will amend the next Provider Relief Fund due to HRSA.

AUDITEE'S SECTION

**North Runnels County Hospital District
Schedule of Expenditures of Federal Awards
Year End June 30, 2021**

Federal Grantor/Pass-through Grantor/Program or Cluster Title	Federal Assistance Listing Number	Pass-through Entity Identifying Number	Additional Award Identification	Federal Expenditures
U.S. Department of Health and Human Services Direct Programs:				
COVID-19 Testing and Mitigation for Rural Health Clinics	93.697		COVID-19	\$ 149,461
Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution	93.498		COVID-19	3,981,490
Total U.S. Department of Health and Human Services Direct Programs				4,130,951
U.S. Department of Health and Human Services Pass-through Programs From:				
Passed through Texas Department of Agriculture				
Small Rural Hospital Improvement Program	93.301	N18804		8,068
Total United States Department of Health and Human Services Pass-through Programs				8,068
Total expenditures of federal awards				\$ 4,139,019

See accompanying independent auditors' report and notes to the schedule of expenditures of federal awards.

Notes to the Schedule of Expenditures of Federal Awards:

1. Basis of Presentation:

The accompanying schedule of expenditures of federal awards (the Schedule) includes the federal award activity of North Runnels County Hospital District (the District) under programs of the federal government for the year ended June 30, 2021. Amounts reported on the Schedule for Federal Assistance Listing Number 93.498 - Provider Relief Fund and American Rescue Plan (ARP) Rural Distribution are based upon the June 30, 2021, Provider Relief Fund report. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

2. Summary of Significant Accounting Policies:

Expenditures reported on this Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. The District has not elected to use the 10 percent de minimis indirect cost rate allowed under the Uniform Guidance.



The current year Schedule of Audit Findings and Questioned Costs reported three matters in Section II – *Financial Statement Findings* and one matter in Section III – *Federal Award Findings and Questioned Costs*.

Current year audit findings:

2021-001 Control Environment

Corrective action planned: Financial statements for the hospital division were caught up in August 2022. The financial statements for the nursing home division will be provided to the Board of Directors starting in February 2023. The nursing home division financial statements had not been provided due to lack of contractual adjustments on the books to net the receivables to their estimated values. A contractual spreadsheet for the nursing home division has been developed.

Anticipated completion date: February 2023
Contact person responsible for corrective action: Ben Helm, CFO

2021-002 Account Reconciliations and Auditor-Detected Journal Entries

Corrective action planned: Reconciliations are being transitioned over to the CFO position. These reconciliations will be in place no later than March 2023.

Anticipated completion date: March 2023
Contact person responsible for corrective action: Ben Helm, CFO



2021-003 Policy and Procedures

Corrective action planned: The District signed a contract with a management company in July 2022 and hired a CFO in June 2022. This should give the District sufficient resources to get the Policies and Procedures developed and functional.

Anticipated completion date: No later than June of 2023
Contact person responsible for corrective action: Ben Helm, CFO

2021-004 Lost Revenue Calculation

Corrective action planned: The District has gathered the qualifying expenses that demonstrate that the District can retain the Provider Relief Funding. The District will amend the next Provider Relief Fund due to HRSA.

Anticipated completion date: Completed in January 2023.
Contact person responsible for corrective action: Nick Lewis, CEO

**North Runnels County Hospital District
Summary Schedule of Prior Audit Findings
Year End June 30, 2021**

The audit for the year ended June 30, 2020, reported no audit findings, nor were there any unresolved prior year findings from years ended June 30, 2019, or prior. Therefore, there are no matters to report in this schedule for the year ended June 30, 2021.