

North Runnels County Hospital District

Basic Financial Statements and
Independent Auditors' Report

June 30, 2022 and 2021



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>SUPPLEMENTARY INFORMATION</i>	
Schedule of divisional statement of net position	21-22
Schedule of divisional statement of revenues, expenses, and changes in net position	23



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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, 2022 and 2021, 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, 2022 and 2021, 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). 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.

Substantial Doubt about the District's Ability to Continue as a Going Concern

The accompanying financial statements have been prepared assuming that the District will continue as a going concern. As discussed in Note 14 to the financial statements, the District has suffered significant recurring operating losses, has significant extended Medicare settlement repayment plans, has no operating reserves, and has stated that substantial doubt exists about the District's ability to continue as a going concern. Management's evaluation of the events and conditions and management's plans regarding those matters are also described in Note 14. The financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified with respect to that matter.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2022, the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

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 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, 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 basic 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 are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statements as a whole.

Dingus, Zarecor & Associates PLLC

Spokane Valley, Washington
February 10, 2023

North Runnels County Hospital District
Statements of Net Position
June 30, 2022 and 2021

ASSETS	2022	2021
<i>Current assets</i>		
Cash and cash equivalents	\$ 419,805	\$ 1,970,840
Receivables:		
Patient accounts, net of estimated uncollectibles	2,987,922	3,389,797
Taxes	28,503	27,796
Inventories	242,358	270,502
Total current assets	3,678,588	5,658,935
<i>Noncurrent assets</i>		
Capital assets, net	3,540,400	3,836,660
Total assets	\$ 7,218,988	\$ 9,495,595

See accompanying notes to basic financial statements.

**North Runnels County Hospital District
Statements of Net Position (Continued)
June 30, 2022 and 2021**

LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION	2022	2021
<i>Current liabilities</i>		
Accounts payable	\$ 762,209	\$ 348,956
Accrued compensation and related liabilities	517,121	510,109
Estimated third-party payor settlements	2,375,537	1,075,066
Current maturities of long-term debt	41,643	52,323
Total current liabilities	3,696,510	1,986,454
<i>Noncurrent liabilities</i>		
Long-term debt, less current maturities	-	41,643
Total liabilities	3,696,510	2,028,097
<i>Deferred inflow of resources, taxes</i>	288,000	265,000
<i>Net position</i>		
Net investment in capital assets	3,498,757	3,742,694
Unrestricted	(264,279)	3,459,804
Total net position	3,234,478	7,202,498
Total liabilities, deferred inflow of resources, and net position	\$ 7,218,988	\$ 9,495,595

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, 2022 and 2021

	2022	2021
<i>Operating revenues</i>		
Net patient service revenue	\$ 7,531,575	\$ 9,267,388
Other revenue	28,331	47,596
Total operating revenues	7,559,906	9,314,984
<i>Operating expenses</i>		
Salaries and wages	6,688,466	6,652,177
Employee benefits	1,215,456	1,229,041
Professional fees	2,293,694	2,488,651
Supplies	1,241,985	1,136,292
Depreciation and amortization	383,994	369,244
Repairs and maintenance	556,495	588,308
Utilities	274,434	280,813
Leases and rentals	56,947	86,576
Insurance	117,936	119,245
Other	306,194	720,577
Total operating expenses	13,135,601	13,670,924
Operating loss	(5,575,695)	(4,355,940)
<i>Nonoperating revenues (expenses)</i>		
Property taxes	1,145,289	1,069,880
Property tax collection expense	(40,766)	(40,865)
Tobacco settlement	19,611	19,445
Investment income	553	11,740
Interest expense	(38,877)	(9,134)
Loss on disposal of assets	(943)	-
COVID-19 grants	325,000	-
CARES Act Provider Relief Fund	197,808	3,997,284
Total nonoperating revenues, net	1,607,675	5,048,350
<i>Advanced diagnostics services settlement</i>	-	(6,922,086)
Change in net position	(3,968,020)	(6,229,676)
Net position, beginning of year	7,202,498	13,432,174
Net position, end of year	\$ 3,234,478	\$ 7,202,498

See accompanying notes to basic financial statements.

**North Runnels County Hospital District
Statements of Cash Flows
Years Ended June 30, 2022 and 2021**

	2022	2021
<i>Change in Cash and Cash Equivalents</i>		
<i>Cash flows from operating activities</i>		
Receipts from and on behalf of patients	\$ 9,233,921	\$ 9,161,645
Other receipts	28,331	47,596
Payments to and on behalf of employees	(7,896,910)	(7,716,520)
Payments to suppliers and contractors	(4,406,288)	(5,463,327)
Advanced diagnostics services settlement	-	(6,922,086)
Net cash from operating activities	(3,040,946)	(10,892,692)
<i>Cash flows from noncapital financing activities</i>		
Property taxes	1,167,582	1,080,195
Property tax collection fee paid	(40,766)	(40,865)
Tobacco settlement	19,611	19,445
Proceeds from COVID-19 grants	325,000	-
CARES Act Provider Relief Fund	197,808	179,900
Net cash from noncapital financing activities	1,669,235	1,238,675
<i>Cash flows from capital and related financing activities</i>		
Principal payments on long-term debt	(32,879)	(50,282)
Interest paid	(38,877)	(9,134)
Purchase of capital assets	(108,121)	(666,148)
Net cash from capital and related financing activities	(179,877)	(725,564)
<i>Cash flows from investing activities</i>		
Investment income	553	11,740
Net change in cash and cash equivalents	(1,551,035)	(10,367,841)
Cash and cash equivalents, beginning of year	1,970,840	12,338,681
Cash and cash equivalents, end of year	\$ 419,805	\$ 1,970,840

See accompanying notes to basic financial statements.

**North Runnels County Hospital District
Statements of Cash Flows (Continued)
Years Ended June 30, 2022 and 2021**

	2022	2021
Reconciliation of Operating Loss to Net Cash From Operating Activities		
Operating loss	\$ (5,575,695)	\$ (4,355,940)
<i>Adjustments to reconcile operating loss to net cash from operating activities</i>		
Depreciation and amortization	383,994	369,244
Provision for bad debts	1,793,583	850,451
Advanced diagnostics services settlement	-	(6,922,086)
Change in assets:		
Receivables:		
Patient accounts	(1,391,708)	(2,151,257)
Estimated third-party payor settlements	-	119,997
Inventories	28,144	(55,039)
Change in liabilities:		
Accounts payable	413,253	12,174
Accrued compensation and related liabilities	7,012	164,698
Estimated third-party payor settlements	1,300,471	1,075,066
Net cash from operating activities	\$ (3,040,946)	\$ (10,892,692)

See accompanying notes to basic financial statements.

**North Runnels County Hospital District
Notes to Basic Financial Statements
Years Ended June 30, 2022 and 2021**

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, 2022 or 2021. *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, 2022 and 2021**

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.

Change in accounting principles – In June 2017, the Governmental Accounting Standards Board (GASB) issued Statement No. 87, *Leases*. The objective of this statement is to increase the usefulness of governments’ financial statements by requiring recognition of certain lease assets and liabilities for leases previously classified as operating leases. 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 District adopted Statement No. 87 during the year ended June 30, 2022. The District’s lease liabilities and right to use assets are immaterial.

Upcoming accounting standards pronouncements – 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.

Subsequent events – The District has evaluated subsequent events through February 10, 2023, 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, 2022 and 2021**

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 \$962 and \$1,485,866 invested in TexPool as of June 30, 2022 and 2021, 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, 2022 and 2021, was the investment in TexPool.

North Runnels County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2022 and 2021

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 years due to the revenue cycle system change. 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:

	2022	2021
Receivable from patients and their insurance carriers	\$ 2,415,472	\$ 1,005,877
Receivable from Medicare	2,268,422	2,498,950
Receivable from Medicaid	244,871	577,390
Total patient accounts receivable	4,928,765	4,082,217
Less allowance for uncollectible accounts	(1,940,843)	(692,420)
Patient accounts receivable, net	\$ 2,987,922	\$ 3,389,797

North Runnels County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2022 and 2021

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 lease liabilities are amortized over the shorter of the lease term or their respective estimated useful lives. Amortization of assets subject to leases is reported with depreciation expense.

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

Useful lives are estimated as follows:

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

Capital asset activity follows:

	Balance June 30, 2021	Additions	Retirements	Transfers	Balance June 30, 2022
<i>Capital assets not being depreciated</i>					
Land	\$ 55,961	\$ -	\$ -	\$ -	\$ 55,961
Construction in progress	-	-	-	-	-
Total capital assets not being depreciated	55,961	-	-	-	55,961
<i>Capital assets being depreciated</i>					
Building and improvements	3,545,791	-	(20,000)	-	3,525,791
Equipment	3,005,977	107,177	-	-	3,113,154
Total capital assets being depreciated	6,551,768	107,177	(20,000)	-	6,638,945
<i>Less accumulated depreciation for</i>					
Building and improvements	(1,115,002)	(115,674)	557	-	(1,230,119)
Equipment	(1,656,067)	(268,320)	-	-	(1,924,387)
Total accumulated depreciation	(2,771,069)	(383,994)	557	-	(3,154,506)
Total capital assets being depreciated, net	3,780,699	(276,817)	(19,443)	-	3,484,439
Capital assets, net of accumulated depreciation	\$ 3,836,660	\$ (276,817)	\$ (19,443)	\$ -	\$ 3,540,400

North Runnels County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2022 and 2021

4. Capital Assets (continued):

	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

**North Runnels County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2022 and 2021**

5. Long-term Debt:

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

	Balance June 30, 2021	Additions	Principal Payments	Balance June 30, 2022	Amounts Due Within One Year
Lease liabilities	\$ 93,966	\$ -	\$ (52,323)	\$ 41,643	\$ 41,643

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

Scheduled principal and interest payments are as follows:

Years Ending June 30,	Lease Liabilities		
	Principal	Interest	Total
2023	\$ 41,643	\$ 774	\$ 42,417
	\$ 41,643	\$ 774	\$ 42,417

The District has lease liabilities for equipment. The future minimum lease payments under the lease liabilities 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 lease liabilities had a capitalized cost of \$381,446 at June 30, 2022 and 2021, and accumulated amortization of \$132,677 and \$99,508 as of June 30, 2022 and 2021, 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, 2022 and 2021

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 increased significantly from the prior year due to issues related to system conversion. The District has not changed its charity care or uninsured discount policies during fiscal years 2022 or 2021. 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:

	2022	2021
Patient service revenue (net of contractual adjustments and discounts):		
Medicare	\$ 5,955,208	\$ 7,439,175
Medicaid	926,105	775,332
Blue Cross and other third-party payors	291,011	406,845
Patients	2,018,330	1,331,561
340B contract pharmacy	260,579	343,312
	9,451,233	10,296,225
Less:		
Charity care	126,075	178,386
Provision for bad debts	1,793,583	850,451
Net patient service revenue	\$ 7,531,575	\$ 9,267,388

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, 2022 and 2021

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 \$-0- in 2022 and \$579,000 in 2021, 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, 2022 and 2021, were approximately \$108,000 and \$186,000, 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, 2022 and 2021**

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 \$.003937 and \$.003636 per \$100 valuation and property tax revenue totaled \$1,145,290 and \$1,069,880 for 2022 and 2021, respectively. Taxes for fiscal years 2022 and 2021 were levied on property within the District having an assessed valuation of approximately \$298,713,000 and \$293,486,000, respectively.

8. Defined Contribution Pension Plan:

The District sponsors a defined contribution pension plan covering substantially all employees classified by the employer as full-time employees who have completed one year of eligible service. The plan name is North Runnels County Hospital District 457 Deferred Compensation Plan (the Plan). The Plan is administered by the District. The District's Board of Directors has the authority to amend the Plan. It is funded by voluntary monthly employee contributions in an amount up to 33 1/3 percent of the employee's compensation, not to exceed \$7,500. In addition, the District makes discretionary contributions equal to 1 percent of the compensation of the participant on a one dollar for two dollar basis with a 50 percent match of employee contributions of less than 2 percent. Pension expense is recorded for the amount of the District's contributions. District contributions to the Plan in future periods will be determined by board resolution. Defined contribution pension plan expense for the years ended June 30, 2022 and 2021, was approximately \$26,000 and \$22,000, respectively. Employee contributions to the Plan were approximately \$60,000 and \$55,000 for the years ended June 30, 2022 and 2021, 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, 2022 and 2021**

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.

	2022	2021
Medicare	37 %	50 %
Medicaid	11	16
Blue Cross	9	7
Other third-party payors	22	13
Patients	21	14
	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, 2022 and 2021**

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 \$-0- and \$6,922,086 in fiscal years 2022 and 2021, respectively, 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 \$197,808, \$179,900 and \$3,817,384 of funding from the CARES Act Provider Relief Fund for the years ended June 30, 2022, 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, 2022 and 2021, the District recognized \$197,808, and \$3,997,284 as revenue, respectively.

13. Line of Credit:

The District obtained revolving operational line of credit of \$500,000 with The Security State Bank in July 2022 with January 3, 2023, maturity date. The District drew \$350,000 in July 2022 on that line of credit. The line of credit was renewed in January 2023.

14. Going Concern

As indicated in the accompanying financial statements, the District has had significant net operating losses of \$5,575,695 and \$4,355,940 for the years ended June 30, 2022 and 2021, along with significant total net losses of \$3,968,020 and \$6,229,676 for the years ended June 30, 2022, and 2021, respectively. The District also has Medicare settlements payable of \$2,375,537 at June 30, 2022. The District does not have operating reserves as of June 30, 2022. These factors create an uncertainty about the District's ability to continue as a going concern.

Management is implementing plans including, but not limited to, the following to reduce the operating losses and to eliminate the total net losses:

- The revenue cycle processes are being improved to increase the cash collections on services provided.
- Expenses will be managed to reduce to a level that can be sustained by the cash collections from the improved revenue cycle processes.
- Service lines will be evaluated for sustainability.

SUPPLEMENTARY INFORMATION

North Runnels County Hospital District
Schedule of Divisional Statement of Net Position
June 30, 2022

ASSETS	Hospital	Nursing Home	Eliminations	Totals
<i>Current assets</i>				
Cash and cash equivalents	\$ 264,148	\$ 155,657	\$ -	\$ 419,805
Receivables:				-
Patient accounts, net of estimated uncollectibles	2,360,334	627,588	-	2,987,922
Taxes	28,503	-	-	28,503
Inventories	242,358	-	-	242,358
Total current assets	2,895,343	783,245	-	3,678,588
<i>Noncurrent assets</i>				
Capital assets, net	2,522,665	1,017,735	-	3,540,400
Total assets	\$ 5,418,008	\$ 1,800,980	\$ -	\$ 7,218,988

See accompanying independent auditors' report.

North Runnels County Hospital District
Schedule of Divisional Statement of Net Position (Continued)
June 30, 2022

LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION	Hospital	Nursing Home	Eliminations	Totals
<i>Current liabilities</i>				
Accounts payable	\$ 737,860	\$ 24,349	\$ -	\$ 762,209
Accrued compensation and related liabilities	517,121	-	-	517,121
Estimated third-party payor settlements	2,375,537	-	-	2,375,537
Current maturities of long-term debt	41,643	-	-	41,643
Total current liabilities	3,672,161	24,349	-	3,696,510
<i>Noncurrent liabilities</i>				
Long-term debt, less current maturities	-	-	-	-
Total liabilities	3,672,161	24,349	-	3,696,510
<i>Deferred inflow of resources, taxes</i>	288,000	-	-	288,000
<i>Net position</i>				
Net investment in capital assets	2,481,022	1,017,735	-	3,498,757
Unrestricted	(1,023,175)	758,896	-	(264,279)
Total net position	1,457,847	1,776,631	-	3,234,478
Total liabilities, deferred inflow of resources, and net position	\$ 5,418,008	\$ 1,800,980	\$ -	\$ 7,218,988

See accompanying independent auditors' report.

North Runnels County Hospital District
Schedule of Divisional Statement of Revenues, Expenses, and Changes in Net Position
June 30, 2022

	Hospital	Nursing Home	Eliminations	Totals
<i>Operating revenues</i>				
Net patient service revenue	\$ 6,957,675	\$ 573,900	\$ -	\$ 7,531,575
Other revenue	28,331	-	-	28,331
Total operating revenues	6,986,006	573,900	-	7,559,906
<i>Operating expenses</i>				
Salaries and wages	5,522,787	1,165,679	-	6,688,466
Employee benefits	1,002,767	212,689	-	1,215,456
Professional fees	1,722,444	571,250	-	2,293,694
Supplies	1,098,333	143,652	-	1,241,985
Depreciation and amortization	323,814	60,180	-	383,994
Repairs and maintenance	475,156	81,339	-	556,495
Utilities	198,798	75,636	-	274,434
Leases and rentals	48,718	8,229	-	56,947
Insurance	117,936	-	-	117,936
Other	288,958	17,236	-	306,194
Total operating expenses	10,799,711	2,335,890	-	13,135,601
Operating loss	(3,813,705)	(1,761,990)	-	(5,575,695)
<i>Nonoperating revenues (expenses)</i>				
Property taxes	1,145,289	-	-	1,145,289
Property tax collection expense	(40,766)	-	-	(40,766)
Tobacco settlement	19,611	-	-	19,611
Investment income	553	-	-	553
Interest expense	(38,877)	-	-	(38,877)
Loss on sale	(943)	-	-	(943)
COVID-19 grants	250,000	75,000	-	325,000
CARES Act Provider Relief Funds	197,808	-	-	197,808
Total nonoperating revenues, net	1,532,675	75,000	-	1,607,675
<i>Transfers</i>	1,585,440	(1,585,440)	-	-
Change in net position	(3,866,470)	(101,550)	-	(3,968,020)
Net position, beginning of year	5,324,317	1,878,181	-	7,202,498
Net position, end of year	\$ 1,457,847	\$ 1,776,631	\$ -	\$ 3,234,478

See accompanying independent auditors' report.