

North Runnels County Hospital District

Basic Financial Statements and
Independent Auditors' Report

June 30, 2023 and 2022



**North Runnels County Hospital District
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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, 2023 and 2022, 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, 2023 and 2022, 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 13 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 13. 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 2023 the District adopted new accounting guidance, Governmental Accounting Standards Board Statement No. 96, *Subscription-Based Information Technology Arrangements*. 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 schedules 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.

D3A PLLC

Spokane Valley, Washington
March 7, 2024

North Runnels County Hospital District
Basic Statements of Net Position
June 30, 2023 and 2022

| ASSETS | 2023 | 2022 |
|---|---------------------|---------------------|
| <i>Current assets</i> | | |
| Cash and cash equivalents | \$ 534,277 | \$ 419,805 |
| Receivables: | | |
| Patient accounts, net of estimated uncollectibles | 1,134,877 | 2,987,922 |
| Taxes | 50,000 | 28,503 |
| Inventories | 153,373 | 242,358 |
| Total current assets | 1,872,527 | 3,678,588 |
| <i>Noncurrent assets</i> | | |
| Capital assets, net | 3,186,698 | 3,540,400 |
| Total assets | \$ 5,059,225 | \$ 7,218,988 |

See accompanying notes to basic financial statements.

North Runnels County Hospital District
Basic Statements of Net Position (Continued)
June 30, 2023 and 2022

| LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION | 2023 | 2022 |
|--|---------------------|---------------------|
| <i>Current liabilities</i> | | |
| Accounts payable | \$ 1,599,864 | \$ 762,209 |
| Accrued compensation and related liabilities | 403,492 | 517,121 |
| Estimated third-party payor settlements | 600,660 | 1,649,491 |
| Current maturities of long-term debt | - | 41,643 |
| Line of credit | 311,554 | - |
| Total current liabilities | 2,915,570 | 2,970,464 |
| <i>Noncurrent liabilities</i> | | |
| Estimated third-party payor settlements | 1,018,170 | 726,046 |
| Total liabilities | 3,933,740 | 3,696,510 |
| <i>Deferred inflow of resources, taxes</i> | 298,000 | 288,000 |
| <i>Net position</i> | | |
| Net investment in capital assets | 3,186,698 | 3,498,757 |
| Unrestricted | (2,359,213) | (264,279) |
| Total net position | 827,485 | 3,234,478 |
| Total liabilities, deferred inflow of resources, and net position | \$ 5,059,225 | \$ 7,218,988 |

See accompanying notes to basic financial statements.

**North Runnels County Hospital District
Basic Statements of Revenues, Expenses,
and Changes in Net Position
Years Ended June 30, 2023 and 2022**

| | 2023 | 2022 |
|---|--------------------|---------------------|
| <i>Operating revenues</i> | | |
| Net patient service revenue | \$ 8,801,709 | \$ 7,531,575 |
| Other revenue | 45,774 | 28,331 |
| Total operating revenues | 8,847,483 | 7,559,906 |
| <i>Operating expenses</i> | | |
| Salaries and wages | 6,295,789 | 6,711,649 |
| Employee benefits | 1,273,220 | 1,192,273 |
| Professional fees | 2,837,240 | 2,627,042 |
| Supplies | 862,683 | 1,241,985 |
| Depreciation and amortization | 362,030 | 383,994 |
| Repairs and maintenance | 125,915 | 223,147 |
| Utilities | 304,002 | 274,434 |
| Leases and rentals | 58,518 | 56,947 |
| Insurance | 76,772 | 117,936 |
| Other | 380,948 | 306,194 |
| Total operating expenses | 12,577,117 | 13,135,601 |
| Operating loss | (3,729,634) | (5,575,695) |
| <i>Nonoperating revenues (expenses)</i> | | |
| Property taxes | 1,204,301 | 1,145,289 |
| Property tax collection expense | (48,958) | (40,766) |
| Tobacco settlement | 21,424 | 19,611 |
| Investment income | 2,634 | 553 |
| Interest expense | (136,070) | (38,877) |
| Loss on disposal of assets | - | (943) |
| COVID-19 grants | 279,310 | 325,000 |
| CARES Act Provider Relief Fund | - | 197,808 |
| Total nonoperating revenues, net | 1,322,641 | 1,607,675 |
| Change in net position | (2,406,993) | (3,968,020) |
| Net position, beginning of year | 3,234,478 | 7,202,498 |
| Net position, end of year | \$ 827,485 | \$ 3,234,478 |

See accompanying notes to basic financial statements.

North Runnels County Hospital District
Basic Statements of Cash Flows
Years Ended June 30, 2023 and 2022

| | 2023 | 2022 |
|---|--------------------|--------------------|
| <i>Change in Cash and Cash Equivalents</i> | | |
| <i>Cash flows from operating activities</i> | | |
| Receipts from and on behalf of patients | \$ 9,898,047 | \$ 9,233,921 |
| Other receipts | 45,774 | 28,331 |
| Payments to and on behalf of employees | (7,682,638) | (7,896,910) |
| Payments to suppliers and contractors | (3,719,438) | (4,406,288) |
| Net cash from operating activities | (1,458,255) | (3,040,946) |
| <i>Cash flows from noncapital financing activities</i> | | |
| Property taxes | 1,192,804 | 1,167,582 |
| Property tax collection fee paid | (48,958) | (40,766) |
| Tobacco settlement | 21,424 | 19,611 |
| Proceeds from line of credit | 350,055 | - |
| Principal payments on line of credit | (38,501) | - |
| Interest paid on line of credit | (11,499) | - |
| Interest paid on Medicare repayments | (123,797) | (36,029) |
| Proceeds from COVID-19 grants | 279,310 | 325,000 |
| CARES Act Provider Relief Fund | - | 197,808 |
| Net cash from noncapital financing activities | 1,620,838 | 1,633,206 |
| <i>Cash flows from capital and related financing activities</i> | | |
| Principal payments on long-term debt | (41,643) | (32,880) |
| Interest paid | (774) | (2,848) |
| Purchase of capital assets | (8,328) | (108,120) |
| Net cash from capital and related financing activities | (50,745) | (143,848) |
| <i>Cash flows from investing activities</i> | | |
| Investment income | 2,634 | 553 |
| Net change in cash and cash equivalents | 114,472 | (1,551,035) |
| Cash and cash equivalents, beginning of year | 419,805 | 1,970,840 |
| Cash and cash equivalents, end of year | \$ 534,277 | \$ 419,805 |

See accompanying notes to basic financial statements.

**North Runnels County Hospital District
Basic Statements of Cash Flows (Continued)
Years Ended June 30, 2023 and 2022**

| | 2023 | 2022 |
|--|-----------------------|-----------------------|
| Reconciliation of Operating Loss to Net Cash From Operating Activities | | |
| Operating loss | \$ (3,729,634) | \$ (5,575,695) |
| <i>Adjustments to reconcile operating loss to net cash from operating activities</i> | | |
| Depreciation and amortization | 362,030 | 383,994 |
| Provision for bad debts | 1,442,810 | 1,793,583 |
| Change in assets: | | |
| Patient accounts | 410,235 | (1,391,708) |
| Inventories | 88,985 | 28,144 |
| Change in liabilities: | | |
| Accounts payable | 837,655 | 413,253 |
| Accrued compensation and related liabilities | (113,629) | 7,012 |
| Estimated third-party payor settlements | (756,707) | 1,300,471 |
| Net cash from operating activities | \$ (1,458,255) | \$ (3,040,946) |

See accompanying notes to basic financial statements.

**North Runnels County Hospital District
Notes to Basic Financial Statements
Years Ended June 30, 2023 and 2022**

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, 2023 or 2022. *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, 2023 and 2022**

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 May 2020, the Governmental Accounting Standards Board (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-of-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 ended June 30, 2023. The adoption had no material impact on the financial statements of the Hospital.

Subsequent events – The District has evaluated subsequent events through March 7, 2024, 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, 2023 and 2022**

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 \$999 and \$962 invested in TexPool as of June 30, 2023 and 2022, 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, 2023 and 2022, was the investment in TexPool.

**North Runnels County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2023 and 2022**

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 year. 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:

| | 2023 | 2022 |
|---|---------------------|---------------------|
| Receivable from patients and their insurance carriers | \$ 1,820,281 | \$ 2,415,472 |
| Receivable from Medicare | 569,852 | 2,268,422 |
| Receivable from Medicaid | 218,797 | 244,871 |
| Total patient accounts receivable | 2,608,930 | 4,928,765 |
| Less allowance for uncollectible accounts | (1,474,053) | (1,940,843) |
| Patient accounts receivable, net | \$ 1,134,877 | \$ 2,987,922 |

North Runnels County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2023 and 2022

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, 2022 | Additions | Retirements | Transfers | Balance June 30, 2023 |
|--|--------------------------------------|---------------------|--------------------|------------------|--------------------------------------|
| <i>Capital assets not being depreciated</i> | | | | | |
| Land | \$ 55,961 | \$ - | \$ - | \$ - | \$ 55,961 |
| Total capital assets not being depreciated | 55,961 | - | - | - | 55,961 |
| <i>Capital assets being depreciated</i> | | | | | |
| Building and improvements | 3,525,791 | - | - | - | 3,525,791 |
| Equipment | 3,113,154 | 8,328 | - | - | 3,121,479 |
| Total capital assets being depreciated | 6,638,945 | 8,328 | - | - | 6,647,270 |
| <i>Less accumulated depreciation for</i> | | | | | |
| Building and improvements | (1,230,119) | (115,351) | - | - | (1,345,470) |
| Equipment | (1,924,387) | (246,679) | - | - | (2,171,063) |
| Total accumulated depreciation | (3,154,506) | (362,030) | - | - | (3,516,533) |
| Total capital assets being depreciated, net | 3,484,439 | (353,702) | - | - | 3,130,737 |
| Capital assets, net of accumulated depreciation | \$ 3,540,400 | \$ (353,702) | \$ - | \$ - | \$ 3,186,698 |

**North Runnels County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2023 and 2022**

4. Capital Assets (continued):

| | Balance June 30, 2021 | Additions | Retirements | Transfers | Balance June 30, 2022 |
|--|-----------------------------|---------------------|--------------------|-------------|-----------------------------|
| <i>Capital assets not being depreciated</i> | | | | | |
| Land | \$ 55,961 | \$ - | \$ - | \$ - | \$ 55,961 |
| 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 |

5. Long-term Debt:

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

| | Balance June 30, 2022 | Additions | Principal Payments | Balance June 30, 2023 | Amounts Due Within One Year |
|-------------------|-----------------------------|-----------|-----------------------|-----------------------------|-----------------------------------|
| Lease liabilities | \$ 41,643 | \$ - | (41,643) | \$ - | \$ - |

| | 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 |

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, 2023 and 2022

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 from the prior year. The District has not changed its charity care or uninsured discount policies during fiscal years 2023 or 2022. 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:

| | 2023 | 2022 |
|---|---------------------|---------------------|
| Patient service revenue (net of contractual adjustments and discounts): | | |
| Medicare | \$ 6,174,906 | \$ 5,955,208 |
| Medicaid | 1,126,427 | 926,105 |
| Blue Cross and other third-party payors | 1,634,274 | 291,011 |
| Patients | 1,237,531 | 2,018,330 |
| 340B contract pharmacy | 201,882 | 260,579 |
| | 10,375,020 | 9,451,233 |
| Less: | | |
| Charity care | 130,501 | 126,075 |
| Provision for bad debts | 1,442,810 | 1,793,583 |
| Net patient service revenue | \$ 8,801,709 | \$ 7,531,575 |

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, 2023 and 2022

6. Net Patient Service Revenue (continued):

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

Laws and regulations governing Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Net patient service revenue decreased by approximately \$33,000 in 2023 and \$-0- in 2022, 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, 2023 and 2022, were approximately \$117,000 and \$108,000, 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, 2023 and 2022**

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 \$.004017 and \$.003937 per \$100 valuation for 2023 and 2022, respectively. Taxes for fiscal years 2023 and 2022 were levied on property within the District having an assessed valuation of approximately \$316,530,950 and \$298,713,000, 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, 2023 and 2022, was approximately \$17,000 and \$26,000, respectively. Employee contributions to the Plan were approximately \$35,000 and \$60,000 for the years ended June 30, 2023 and 2022, 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, 2023 and 2022**

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.

| | 2023 | 2022 |
|--------------------------|--------------|-------------|
| Medicare | 19 % | 37 % |
| Medicaid | 15 | 11 |
| Blue Cross | 4 | 9 |
| Other third-party payors | 19 | 22 |
| Patients | 43 | 21 |
| | 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.

11. Line of Credit:

The District obtained a revolving operational line of credit of \$500,000 with The Security State Bank in July 2022 with a January 3, 2023, maturity date. The District drew \$350,000 in July 2022 on the line of credit. The line of credit was renewed in January 2023 with new maturity date July 2023. The District had an outstanding balance on the line of credit of \$311,554 as of June 30, 2023.

**North Runnels County Hospital District
Notes to Basic Financial Statements (Continued)
Years Ended June 30, 2023 and 2022**

12. CARES Act Provider Relief Fund:

The District received \$-0-, \$197,808, \$179,900, and \$3,817,384 of funding from the CARES Act Provider Relief Fund for the years ended June 30, 2023, 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, 2023 and 2022, the District recognized \$-0- and \$197,808 as revenue, respectively.

13. Going Concern:

As indicated in the accompanying financial statements, the District has had significant net operating losses of \$3,729,634 and \$5,575,695 for the years ended June 30, 2023 and 2022, respectively, along with significant total net losses of \$2,406,993 and \$3,968,020 for the years ended June 30, 2023 and 2022, respectively. The District also has Medicare settlements payable of \$1,618,830 and \$2,375,537 at June 30, 2023 and 2022, respectively. The District does not have operating reserves as of June 30, 2023. 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:

Cost report variances starting with fiscal year 2019 will be evaluated for possible favorable cost report findings and adjustments.

- The District will submit additional information needed to enhance the request for Employee Retention Tax Credit dollars. The District meets the criteria for quarter one with \$680,000, however, additional information is needed to move from "meets qualifications" to "approval status".
- They will continue the practice of providing all skilled nursing care in the hospital versus the nursing home.
- With the small number of nursing home residents, they will monitor each nursing home resident account monthly for payment and they will take corrective action for anything which results in non-payment of the claims.
- The District wants to sell the nursing home when funds are available to pay legal counsel.
- Develop and implement practices which allows normal billing cycles to occur when there is a change in billing providers.
- Monitor revenue cycle measures in the hospital and implement corrective action when metrics are not meeting targets.
- Increase the cash collections on services provided.

14. Subsequent Events:

The District entered into a promissory note of \$577,806 with the Computer Programs & Systems, Inc. in December 2023. The District will make twenty-four monthly payments of \$24,075.

The District obtained a \$1,200,000 loan with The First State Bank in August 2023. The principal amount drawn and interest rate of 10.5 percent with all be due in full on August 30, 2024.

SUPPLEMENTARY INFORMATION

North Runnels County Hospital District
Schedule of Divisional Statement of Net Position
June 30, 2023

| ASSETS | Hospital | Nursing Home | Eliminations | Totals |
|--|---------------------|---------------------|---------------------|---------------------|
| <i>Current assets</i> | | | | |
| Cash and cash equivalents | \$ 547,075 | \$ (12,798) | \$ - | \$ 534,277 |
| Receivables: | | | | - |
| Patient accounts, net of estimated uncollectibles | 810,663 | 324,214 | - | 1,134,877 |
| Taxes | 50,000 | - | - | 50,000 |
| Inventories | 153,373 | - | - | 153,373 |
| Total current assets | 1,561,111 | 311,416 | - | 1,872,527 |
| <i>Noncurrent assets</i> | | | | |
| Capital assets, net | 2,220,741 | 965,957 | - | 3,186,698 |
| Total assets | \$ 3,781,852 | \$ 1,277,373 | \$ - | \$ 5,059,225 |
| LIABILITIES, DEFERRED INFLOW OF RESOURCES, AND NET POSITION | | | | |
| | Hospital | Nursing Home | Eliminations | Totals |
| <i>Current liabilities</i> | | | | |
| Accounts payable | \$ 1,335,420 | \$ 264,444 | \$ - | \$ 1,599,864 |
| Accrued compensation and related liabilities | 403,492 | - | - | 403,492 |
| Estimated third-party payor settlements | 600,660 | - | - | 600,660 |
| Line of credit | 311,554 | - | - | 311,554 |
| Total current liabilities | 2,651,126 | 264,444 | - | 2,915,570 |
| <i>Noncurrent liabilities</i> | | | | |
| Estimated third-party payor settlements | 1,018,170 | - | - | 1,018,170 |
| Total liabilities | 3,669,296 | 264,444 | - | 3,933,740 |
| <i>Deferred inflow of resources, taxes</i> | 298,000 | - | - | 298,000 |
| <i>Net position</i> | | | | |
| Net investment in capital assets | 2,220,741 | 965,957 | - | 3,186,698 |
| Unrestricted | (2,406,185) | 46,972 | - | (2,359,213) |
| Total net position | (185,444) | 1,012,929 | - | 827,485 |
| Total liabilities, deferred inflow of resources, and net position | \$ 3,781,852 | \$ 1,277,373 | \$ - | \$ 5,059,225 |

See accompanying independent auditors' report.

North Runnels County Hospital District
Schedule of Divisional Statement of Net Position (Continued)
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 |
| 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 | 1,649,491 | - | - | 1,649,491 |
| Current maturities of long-term debt | 41,643 | - | - | 41,643 |
| Total current liabilities | 2,946,115 | 24,349 | - | 2,970,464 |
| <i>Noncurrent liabilities</i> | | | | |
| Estimated third-party payor settlements | 726,046 | - | - | 726,046 |
| 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, 2023

| | Hospital | Nursing Home | Eliminations | Totals |
|---|---------------------|---------------------|--------------|--------------------|
| <i>Operating revenues</i> | | | | |
| Net patient service revenue | \$ 7,990,306 | \$ 811,403 | \$ - | \$ 8,801,709 |
| Other revenue | 45,780 | (6) | - | 45,774 |
| Total operating revenues | 8,036,086 | 811,397 | - | 8,847,483 |
| <i>Operating expenses</i> | | | | |
| Salaries and wages | 5,391,868 | 903,921 | - | 6,295,789 |
| Employee benefits | 1,105,052 | 168,168 | - | 1,273,220 |
| Professional fees | 2,144,722 | 692,518 | - | 2,837,240 |
| Supplies | 728,313 | 134,370 | - | 862,683 |
| Depreciation and amortization | 301,928 | 60,102 | - | 362,030 |
| Repairs and maintenance | 105,222 | 20,693 | - | 125,915 |
| Utilities | 250,261 | 53,741 | - | 304,002 |
| Leases and rentals | 53,535 | 4,983 | - | 58,518 |
| Insurance | 76,772 | - | - | 76,772 |
| Other | 377,698 | 3,250 | - | 380,948 |
| Total operating expenses | 10,535,371 | 2,041,746 | - | 12,577,117 |
| Operating loss | (2,499,285) | (1,230,349) | - | (3,729,634) |
| <i>Nonoperating revenues (expenses)</i> | | | | |
| Property taxes | 1,204,301 | - | - | 1,204,301 |
| Property tax collection expense | (48,958) | - | - | (48,958) |
| Tobacco settlement | 21,424 | - | - | 21,424 |
| Investment income | 2,634 | - | - | 2,634 |
| Interest expense | (136,070) | - | - | (136,070) |
| COVID-19 grants | 279,310 | - | - | 279,310 |
| Total nonoperating revenues, net | 1,322,641 | - | - | 1,322,641 |
| <i>Transfers</i> | 466,647 | (466,647) | - | - |
| Change in net position | (1,643,291) | (763,702) | - | (2,406,993) |
| Net position, beginning of year | 1,457,847 | 1,776,631 | - | 3,234,478 |
| Net position, end of year | \$ (185,444) | \$ 1,012,929 | \$ - | \$ 827,485 |

See accompanying independent auditors' report.

North Runnels County Hospital District
Schedule of Divisional Statement of Revenues, Expenses,
and Changes in Net Position (Continued)
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 | 5,545,970 | 1,165,679 | - | 6,711,649 |
| Employee benefits | 979,584 | 212,689 | - | 1,192,273 |
| Professional fees | 2,021,260 | 605,782 | - | 2,627,042 |
| Supplies | 1,098,333 | 143,652 | - | 1,241,985 |
| Depreciation and amortization | 323,814 | 60,180 | - | 383,994 |
| Repairs and maintenance | 176,340 | 46,807 | - | 223,147 |
| 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 Fund | 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.