

**BELLVILLE HOSPITAL DISTRICT
BELLVILLE, TEXAS**

**AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017**



INDEPENDENT AUDITOR'S REPORT

Board of Directors and Management
Bellville Hospital District
44 North Cummings
Bellville, Texas 77418

We have audited the accompanying statements of net position of Bellville Hospital District, (“the District”) as of December 31, 2018 and 2017, and the related statements of revenue, expenses, and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Bellville Hospital District’s basic financial statements.

Management’s Responsibility for the Financial Statements

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

Auditor’s Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District’s preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District’s internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Bellville Hospital District, as of December 31, 2018 and 2017, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages A-1 through A-4 be presented to supplement the basic financial statements. Such 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.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Durbin & Company, L.L.P.

Durbin & Company, L. L. P.
Lubbock, Texas
July 9, 2019

**BELLVILLE HOSPITAL DISTRICT
BELLVILLE, TEXAS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

**AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017**

**BELLVILLE HOSPITAL DISTRICT
MANAGEMENTS' DISCUSSION AND ANALYSIS
DECEMBER 31, 2018 AND 2017
(Unaudited)**

Our discussion and analysis of Bellville Hospital District's financial performance provides an overview of the District's financial activities for the fiscal years ended December 31, 2018 and 2017. Please read it in conjunction with the District's financial statements, which begin on page 1.

FINANCIAL HIGHLIGHTS

- The District's net position reflects an increase of \$683,855, or 21.0%, in 2018 and \$170,929, or 5.5%, in 2017.
- The District's operating expenses increased by \$169,581, or 42.8%, in 2018, and decreased by (\$26,776), or (6.3%), in 2017.
- The District's non-operating revenues and expenses decreased by (\$682,087), or (67.4%), in 2018 and by (\$824,837) or (44.9%), in 2017.

USING THIS ANNUAL REPORT

The District's financial statements consist of three statements, a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District but restricted for specific purposes by contributors, grantors, and enabling legislation.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position

Our analysis of the District's finances begins on page A-2. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statements of Net Position and the Statements of Revenues, Expenses, and Changes in Net Position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes to it. You can think of the District's net position—the difference between assets and liabilities—as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating.

**BELLVILLE HOSPITAL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2018 AND 2017
(Unaudited)**

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as “Where did cash come from? “What was cash used for?” and “What was the change in cash balance during the reporting period?”

THE DISTRICT’S NET POSITION IS THE NET WORTH OF THE DISTRICT

The District’s net position is the difference between its assets and liabilities reported in the Statement of Net Position on page 2. The District’s assets, liabilities, and net position are summarized in **Table 1**. The total net position represents the District’s net worth.

Table 1: Assets, Liabilities, and Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Assets:			
Current Assets	\$2,036,054	\$1,304,036	\$1,258,687
Capital Assets, Net	<u>4,951,316</u>	<u>5,272,546</u>	<u>5,380,140</u>
Total Assets	<u>\$6,987,370</u>	<u>\$6,576,582</u>	<u>\$6,638,827</u>
Liabilities:			
Long-Term Debt Outstanding	\$2,991,086	\$3,256,690	\$3,520,334
Current Liabilities	<u>52,527</u>	<u>59,990</u>	<u>29,520</u>
Total Liabilities	<u>3,043,613</u>	<u>3,316,680</u>	<u>3,549,854</u>
Total Net Position			
Net Investment in Capital Assets	1,960,230	2,015,856	1,859,806
Unrestricted	<u>1,983,527</u>	<u>1,244,046</u>	<u>1,229,167</u>
Total Net Position	<u>3,943,757</u>	<u>3,259,902</u>	<u>3,088,973</u>
Total Liabilities and Net Position	<u>\$6,987,370</u>	<u>\$6,576,582</u>	<u>\$6,638,827</u>

The significant component of the change in the District’s net position in 2018 is largely due to the increase in cash and cash equivalents. The total increase in cash was approximately \$711,000 due to decreased indigent care expense in 2018. The significant component of the change in the District’s net position in 2017 is largely due to the increase in construction-in-progress. The total increase in CIP was approximately \$246,000.

**BELLVILLE HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2018 AND 2017
(Unaudited)**

OPERATING RESULTS AND CHANGES IN THE DISTRICT'S NET POSITION

The District's net position increased by \$683,855, or 21.0%, in 2018 and by \$170,929, or 5.5%, in 2017.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Revenues:			
Lease Revenue	<u>\$1,580,420</u>	<u>\$1,580,000</u>	<u>\$1,580,000</u>
Operating Expenses:			
Professional Fees and Purchased Services	94,515	6,000	6,000
Supplies and Other	132,775	37,183	34,738
Depreciation and Amortization	<u>338,616</u>	<u>353,142</u>	<u>382,363</u>
Total Operating Expenses	<u>565,906</u>	<u>396,325</u>	<u>423,101</u>
Operating Income	1,014,514	1,183,675	1,156,899
Nonoperating Revenues and (Expenses):			
Property Tax Revenue	689,052	670,016	664,617
Indigent Care Expense	(918,283)	(1,557,466)	(2,340,111)
Investment Income	23,770	10,858	3,591
Interest Expense	<u>(125,198)</u>	<u>(136,154)</u>	<u>(165,680)</u>
Total Nonoperating Revenues and (Expenses)	<u>(330,659)</u>	<u>(1,012,746)</u>	<u>(1,837,583)</u>
Increase (Decrease) in Net Position	683,855	170,929	(680,684)
Net Position, Beginning of Year	<u>3,259,902</u>	<u>3,088,973</u>	<u>3,769,657</u>
Net Position, End of Year	<u><u>\$3,943,757</u></u>	<u><u>\$3,259,902</u></u>	<u><u>\$3,088,973</u></u>

Operating Income

Contributing to the overall results of the District is its operating income, generally, the difference between rent revenue and the expenses in relation to the depreciation of the rented building and operations of the District. In 2018, the District reported an operating income of \$1,014,514, which is an unfavorable decrease of (\$169,161), or (14.3%), from the reported operating income in 2017 of \$1,183,675. The significant component of the unfavorable change is largely due to the increase of approximately \$89,000 in professional fees and purchased services.

**BELLVILLE HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2018 AND 2017
(Unaudited)**

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of property taxes levied by the District. Property tax revenue increased by \$19,036 and \$5,399 in 2018 and 2017, respectively.

Nonoperating expenses consist primarily of indigent care expense and interest expense. Indigent care expense decreased by (\$639,183), or (41.0%), in 2018 and by (\$782,645), or (33.4%), in 2017, due to the unpredictable nature of state programs and funding opportunities.

THE DISTRICT'S CASH FLOWS

Changes in the District's cash flows are consistent with changes in operating income and nonoperating revenues and expenses.

The net of all cash flow activities resulted in a net increase in cash and cash equivalents of \$710,586 and \$48,325 in 2018 and in 2017.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2018 and 2017, the District had \$4,951,316 and \$5,272,546 invested in capital assets, net of accumulated depreciation, respectively, as detailed in Note 4 of the financial statements. During 2017, the District began a building improvement project which was not fully completed at year end. The project was completed during fiscal year 2018 with a cost of \$263,806. The District placed the project into service on December 19, 2018.

Debt

At year end 2018 and 2017, the District had \$2,991,086 and \$3,256,690 in long-term debt outstanding as detailed in Note 5 of the financial statements. During 2018 and 2017, the District made payments of \$265,604 and \$263,644, respectively.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact, the District's office at Bellville Hospital District, 44 North Cummings, Bellville, Texas 77418-0977.

**BELLVILLE HOSPITAL DISTRICT
BELLVILLE, TEXAS**

FINANCIAL STATEMENTS

**AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2018 AND 2017**

BELLVILLE HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

DECEMBER 31, 2018 AND 2017

ASSETS:	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,675,860	\$ 965,274
Prepaid Expenses and Other Current Assets	13,321	12,884
Property Taxes Receivable, Net	<u>346,873</u>	<u>325,878</u>
Total Current Assets	<u>2,036,054</u>	<u>1,304,036</u>
CAPITAL ASSETS		
Land	18,045	18,045
Construction-In-Progress	-	245,548
Depreciable Capital Assets, Net	<u>4,933,271</u>	<u>5,008,953</u>
Total Capital Assets, Net	<u>4,951,316</u>	<u>5,272,546</u>
Total Assets	<u>\$ 6,987,370</u>	<u>\$ 6,576,582</u>

The accompanying notes are an integral part of these financial statements

BELLVILLE HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

DECEMBER 31, 2018 AND 2017

LIABILITIES AND NET POSITION:	<u>2018</u>	<u>2017</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 23,174	\$ 30,637
Current Portion of Long-Term Debt	267,640	265,606
Other Accrued Liabilities	<u>29,353</u>	<u>29,353</u>
Total Current Liabilities	320,167	325,596
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Portion	<u>2,723,446</u>	<u>2,991,084</u>
Total Liabilities	3,043,613	3,316,680
NET POSITION		
Net Investment in Capital Assets	1,960,230	2,015,856
Unrestricted	<u>1,983,527</u>	<u>1,244,046</u>
Total Net Position	<u>3,943,757</u>	<u>3,259,902</u>
Total Liabilities and Net Position	<u>\$ 6,987,370</u>	<u>\$ 6,576,582</u>

The accompanying notes are an integral part of these financial statements

BELLVILLE HOSPITAL DISTRICT

**STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET POSITION**

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
OPERATING REVENUES:		
Lease Revenue	<u>\$ 1,580,420</u>	<u>\$ 1,580,000</u>
OPERATING EXPENSES:		
Professional Fees and Purchased Services	94,515	6,000
Other Operating	132,775	37,183
Depreciation and Amortization	<u>338,616</u>	<u>353,142</u>
Total Operating Expenses	<u>565,906</u>	<u>396,325</u>
Operating Income	<u>1,014,514</u>	<u>1,183,675</u>
NONOPERATING REVENUES (EXPENSES):		
Property Tax Revenue	689,052	670,016
Indigent Care Expense	(918,283)	(1,557,466)
Investment Income	23,770	10,858
Interest Expense	<u>(125,198)</u>	<u>(136,154)</u>
Total Nonoperating Revenues (Expenses)	<u>(330,659)</u>	<u>(1,012,746)</u>
Increase in Net Position	683,855	170,929
Net Position, Beginning of Year	<u>3,259,902</u>	<u>3,088,973</u>
Net Position, End of Year	<u>\$ 3,943,757</u>	<u>\$ 3,259,902</u>

The accompanying notes are an integral part of these financial statements

BELLVILLE HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	<u>2018</u>	<u>2017</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Rent Receipts	\$ 1,580,420	\$ 1,580,000
Payments to Suppliers and Contractors	<u>(235,190)</u>	<u>(10,608)</u>
Net Cash Provided by Operating Activities	<u>1,345,230</u>	<u>1,569,392</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Income	<u>23,770</u>	<u>10,858</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal Payments on Long-Term Debt	(265,604)	(263,644)
Interest Paid	(125,198)	(136,153)
Purchase of Capital Assets	<u>(17,386)</u>	<u>(245,548)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(408,188)</u>	<u>(645,345)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property Taxes Revenues	668,057	670,886
Payments for Intergovernmental Transfers	<u>(918,283)</u>	<u>(1,557,466)</u>
Net Cash Used by Noncapital Financing Activities	<u>(250,226)</u>	<u>(886,580)</u>
Net Increase in Cash and Cash Equivalents	710,586	48,325
Cash Balance, Beginning of Year	<u>965,274</u>	<u>916,949</u>
Cash Balance, End of Year	<u><u>\$ 1,675,860</u></u>	<u><u>\$ 965,274</u></u>

The accompanying notes are an integral part of these financial statements

BELLVILLE HOSPITAL DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	\$ 1,014,514	\$ 1,183,675
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities:		
Depreciation and Amortization	338,616	353,142
(Increase) Decrease in:		
Prepays and Other Current Assets	(437)	2,106
Increase (Decrease) in:		
Accounts Payable	(7,463)	30,469
Net Cash Provided by Operating Activities	<u>\$ 1,345,230</u>	<u>\$ 1,569,392</u>

The accompanying notes are an integral part of these financial statements

**BELLVILLE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – The Bellville Hospital District (District) was created by a special election on July 27, 1999 in the City of Bellville, Texas under provisions of the Section 286 of the Health and Safety Code, effective 1992. The District is organized to serve the health care needs of the persons in and around Bellville, Texas in accordance with their health needs as determined by medical staff members. The Governing Board of Directors consists of nine members serving two-year terms.

On December 31, 2010, the District entered into an agreement with Bellville St. Joseph Health Center formerly known as Bellville General Hospital (Hospital), a 501(c)(3) corporation, to sell certain assets to the Hospital not including the building and related improvements. The District retained ownership of the building and related improvements and has entered into an operating lease agreement with the Hospital, whereby the Hospital will utilize the premises to continue to provide hospital and healthcare related services to the local community. The operating lease is for an initial period of ten years, unless sooner terminated. Additionally, there are four renewal periods of ten years each.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America.

Enterprise Fund Accounting – The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. The District has elected to apply the provisions based on Governmental Accounting Standard Board (GASB) *Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The District has implemented the provisions of Governmental Accounting Standard Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*, in FY 2013. The Statement establishes accounting and financial reporting standards that reclassify as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities. GASB 65 is effective for periods beginning after December 15, 2012.

Pending Adoption of Recent Accounting Pronouncements:

Accounting Standards Update (ASU) No. 2014-09 – In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 was implemented by FASB to determine whether an entity should recognize revenue. An entity should recognize revenue to depict the transfers of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018, with early implementation permitted. Management does not expect the new standard to have a significant impact to its financial position, results of operations and related disclosures.

**BELLVILLE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GASB Statement No. 87 – In June 2017, GASB issued GASB Statement No. 87 – *Leases*. The objective of this Statement is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Statement is effective for reporting periods beginning after December 15, 2019. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

GASB Statement No. 88 – In April 2018, GASB issued GASB Statement No. 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Statement is effective for reporting periods beginning after June 15, 2018. Management is currently evaluating the effect this Statement will have on the financial statements and related disclosures.

GASB Statement No. 89 – In June 2018, GASB issued GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The Statement is effective for reporting periods beginning after December 15, 2019. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

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

Cash and Cash Equivalents – The District considers highly liquid investments with an original maturity of three months or less to be cash equivalents, excluding amounts whose use is limited by board designation or other arrangements under trust agreements.

Capital Assets – Capital Assets are carried at cost and include expenditures for improvements and betterments, which substantially increase the useful lives of existing capital assets. Maintenance repairs and minor renewals are expensed as incurred. When properties are retired or otherwise disposed of, the related cost and accumulated depreciation are removed from the respective accounts and any profit or loss is credited or charged to income. Equipment under capital lease obligations is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment life. Such amortization is included in depreciation and amortization in the financial statements.

**BELLVILLE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets (Continued) – Donated assets are recorded at fair market value on the date of donation. The District capitalizes all assets over \$2,500. The District provides for depreciation of property, plant and equipment by the straight-line method and at rates promulgated by the American Hospital Association, which are designed to amortize the cost of such equipment over its useful life as follows:

Land Improvements	15 to 20 years
Building (Components)	5 to 50 years
Fixed Equipment	7 to 25 years
Major Moveable Equipment	3 to 20 years

Net Position – Net position of the District is classified into three components: net investment in capital assets; restricted; and unrestricted. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. The unrestricted component of net position is the net amount of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted component of net position.

Operating Revenues and Expenses – For purposes of display, the District’s statements of revenues, expenses and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues and expenses result from rental activities of the District’s property and equipment. Non-exchange revenues and expenses, including taxes, intergovernmental transfers, and grants and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues and expenses. Operating expenses are expenses related to maintaining the leased assets.

Federal Income Taxes – The District is a political subdivision under the laws of the State of Texas, and, therefore, it is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the District is subject to federal income tax on any unrelated business taxable income.

Grants and Contributions – From time to time, the District receives grants from the state 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. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

**BELLVILLE HOSPITAL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2018 AND 2017**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 and natural disasters. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage during the year.

Property Taxes – The District levies taxes as provided under state law on properties within the District. These taxes are collected by the Austin County Appraisal District and are remitted to the District when received. The District’s taxes are levied and become collectible from October 1 to January 31 of the succeeding year. The taxes are based on the assessed values listed as of the prior January 1, which is the due date a lien attaches to the taxable property. Property tax revenues are recognized when they become available. Allowances are provided for delinquent taxes.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

At December 31, 2018 and 2017, the carrying amount of the District’s deposits with financial institutions was \$1,675,860 and \$965,274, respectively, and the bank balance was \$1,675,878 and \$966,071, respectively.

	<u>2018</u>	<u>2017</u>
Amount insured by the FDIC	\$ 472,925	\$ 468,292
Amount collateralized with securities held by the pledging financial institution's trust department in the District's name	<u>1,202,953</u>	<u>497,779</u>
Total Bank Balance	<u>\$ 1,675,878</u>	<u>\$ 966,071</u>

NOTE 3 – PROPERTY TAX RECEIVABLE

Ad valorem taxes are recognized as revenue by the District in the period for which they are levied. Property taxes are levied on October 1 of each year and become delinquent as of February 1 of the following year. Total tax revenue for 2018 and 2017, was \$733,670 and \$713,450, respectively. Total fees for the collection and remittance of taxes to the District were \$44,618 and \$43,434, respectively. As of December 31, 2018 and 2017, the balance of property taxes receivable and its related allowance for uncollectible taxes were as follows.

	<u>2018</u>	<u>2017</u>
Taxes Receivable	\$ 492,670	\$ 465,074
Allowance for Uncollectible Taxes	<u>(145,797)</u>	<u>(139,196)</u>
Net Taxes Receivable	<u>\$ 346,873</u>	<u>\$ 325,878</u>

**BELLVILLE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017**

NOTE 4 – CAPITAL ASSETS

Capital asset additions, retirements, and balances for the years ended December 31, 2018 and 2017 were as follows:

	<u>Balance</u> <u>12/31/17</u>	<u>Additions</u>	<u>Reclass/ Retirements</u>	<u>Balance</u> <u>12/31/18</u>
Land	\$ 18,045	\$ -	\$ -	\$ 18,045
Land Improvements	197,361	-	-	\$ 197,361
Building and Improvements	8,811,083	-	263,806	9,074,889
Fixed Equipment	708,502	-	-	708,502
Major Moveable Equipment	1,815,618	-	-	1,815,618
Capitalized Interest	257,966	-	-	257,966
Construction In Progress	<u>245,548</u>	<u>18,258</u>	<u>(263,806)</u>	<u>-</u>
Totals at Historical Cost	<u>12,054,123</u>	<u>18,258</u>	<u>-</u>	<u>12,072,381</u>
Less Accumulated Depreciation for:				
Land Improvements	(189,760)	(4,573)	-	(194,333)
Building and Improvements	(4,121,852)	(252,766)	-	(4,374,618)
Fixed Equipment	(642,705)	(23,856)	-	(666,561)
Major Moveable Equipment	(1,724,073)	(49,694)	-	(1,773,767)
Capitalized Interest	<u>(103,187)</u>	<u>(8,599)</u>	<u>-</u>	<u>(111,786)</u>
Total Accumulated Depreciation	<u>(6,781,577)</u>	<u>(339,488)</u>	<u>-</u>	<u>(7,121,065)</u>
Capital Assets, Net	<u>\$ 5,272,546</u>	<u>\$ (321,230)</u>	<u>\$ -</u>	<u>\$ 4,951,316</u>

**BELLVILLE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017**

NOTE 4 – CAPITAL ASSETS (CONTINUED)

	<u>Balance 12/31/16</u>	<u>Additions</u>	<u>Reclass/ Retirements</u>	<u>Balance 12/31/17</u>
Land	\$ 18,045	\$ -	\$ -	\$ 18,045
Land Improvements	197,361	-	-	197,361
Building and Improvements	8,812,333	-	(1,250)	8,811,083
Fixed Equipment	708,502	-	-	708,502
Major Movable Equipment	1,814,368	-	1,250	1,815,618
Capitalized Interest	257,966	-	-	257,966
Construction in Progress	<u>-</u>	<u>245,548</u>	<u>-</u>	<u>245,548</u>
Totals at Historical Cost	<u>11,808,575</u>	<u>245,548</u>	<u>-</u>	<u>12,054,123</u>
Less Accumulated Depreciation for:				
Land Improvements	(185,186)	(4,574)	-	(189,760)
Building and Improvements	(3,867,205)	(254,647)	-	(4,121,852)
Fixed Equipment	(609,192)	(33,513)	-	(642,705)
Major Movable Equipment	(1,672,264)	(51,809)	-	(1,724,073)
Capitalized Interest	<u>(94,588)</u>	<u>(8,599)</u>	<u>-</u>	<u>(103,187)</u>
Total Accumulated Depreciation	<u>(6,428,435)</u>	<u>(353,142)</u>	<u>-</u>	<u>(6,781,577)</u>
Capital Assets, Net	<u>\$ 5,380,140</u>	<u>\$ (107,594)</u>	<u>\$ -</u>	<u>\$ 5,272,546</u>

Depreciation expense for the years ended December 31, 2018 and 2017, was \$338,616 and \$353,142 respectively. Construction in progress at December 31, 2017 includes costs related to building improvements. The project was completed during fiscal year 2018 at a cost of \$263,806.

**BELLVILLE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017**

NOTE 5 – LONG-TERM DEBT

A schedule of changes in the District’s long-term debt consists of the following at December 31:

	Balance 12/31/17	Additions	Reductions	Balance 12/31/18	Due Within One Year
Long Term Debt:					
Notes Payable					
Fixed Rate Note #1	\$ 1,939,500	\$ -	\$ (215,500)	\$ 1,724,000	\$ 215,500
Fixed Rate Note #2	1,317,190	-	(50,104)	1,267,086	52,140
Total Long Term Debt	<u>\$3,256,690</u>	<u>\$ -</u>	<u>\$ (265,604)</u>	<u>\$2,991,086</u>	<u>\$ 267,640</u>
	Balance 12/31/16	Additions	Reductions	Balance 12/31/17	Due Within One Year
Long Term Debt:					
Notes Payable					
Fixed Rate Note #1	\$2,155,000	\$ -	\$ (215,500)	\$ 1,939,500	\$ 215,500
Fixed Rate Note #2	1,365,334	-	(48,144)	1,317,190	50,106
Total Long Term Debt	<u>\$3,520,334</u>	<u>\$ -</u>	<u>\$ (263,644)</u>	<u>\$3,256,690</u>	<u>\$ 265,606</u>

Notes Payable:

- *Fixed Rate Note #1* – The District obtained a fixed rate note from the First National Bank of Bellville in the original amount of \$2,155,000 dated March 11, 2016. The proceeds from the fixed rate note were used to pay the outstanding principal on the Series 2004A and Taxable Series 2004B bonds. The fixed rate note bears an interest rate of 4% and is collateralized by real estate. The fixed rate note is payable in annual principal installments of \$215,500 beginning March 11, 2017 and a final balloon payment of \$1,293,000 on March 11, 2021. Interest payments are semi-annual beginning September 11, 2016.
- *Fixed Rate Note #2* – The District obtained a fixed rate note from the First National Bank of Bellville in the original amount of \$1,400,000 dated March 11, 2016. The proceeds from the fixed rate note were used to pay the outstanding principal on the ER Expansion Note. The fixed rate note bears an interest rate of 4% and is collateralized by real estate. The fixed rate note is payable in quarterly principal and interest payments of \$25,511 beginning June 11, 2016 and a final balloon payment of \$1,172,249 on March 11, 2021.

**BELLVILLE HOSPITAL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2018 AND 2017**

NOTE 5 – LONG-TERM DEBT (CONTINUED)

The following is a schedule of the maturities on long term debt for each of the next five years:

For the Year Ending December 31,	Long-Term Debt		
	Principal	Interest	Total
2019	\$ 267,640	\$ 114,517	\$ 382,157
2020	269,620	104,083	373,703
2021	2,453,826	37,096	2,490,922
Total	<u>\$ 2,991,086</u>	<u>\$ 255,696</u>	<u>\$ 3,246,782</u>

The District follows the policy of capitalizing interest as a component of the cost of capital assets constructed for its own use. In 2018 and 2017, total interest cost incurred and charged to operations was \$125,198 and \$136,154, respectively.

NOTE 6 – RELATED PARTY TRANSACTIONS

Effective December 31, 2010 the District entered into an operating lease agreement with St. Joseph Health Center (the “Hospital”) to lease real property and certain equipment owned by the District to the Hospital to continue to provide healthcare services. The lease agreement has an initial term of 10 years at a quarterly payment of \$350,000. On December 1, 2013, the lease agreement was amended to increase the rent amount to \$365,000 per quarter, until the Emergency Room Renovation Project was underway. Once the project began, the quarterly amount increased to \$395,000. The start date of the Project was June 1, 2014, after the Board of Director’s approval to obtain financing for the project. The Emergency Room Renovation Project was completed and placed into service on September 30, 2015. As of December 31, 2018 and 2017, total rental revenue received from the Hospital was \$1,580,000. This lease agreement was mutually terminated effective May 6, 2019.

The following is a schedule of the minimum rental payments from the operating lease agreement:

For the Year Ending December 31, 2019	<u>\$ 543,656</u>
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The District from time to time conducts business with organizations or persons that are affiliated with Board members. This is often a result of a limited number of vendors in smaller communities. It was noted, during fiscal year 2018 and 2017 that the District maintained funds and had notes payable at a bank where a Board member is an officer.

**BELLVILLE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2018 AND 2017**

NOTE 7 – COMMITMENTS AND CONTINGENCIES

Litigation – The District is from time to time subject to claims and suits for damages for personal injuries to patients and others, most of which are covered as to risk and amount. In the opinion of management, the ultimate resolution of any unasserted claims will not have a material effect on the District’s financial position or results of operation.

NOTE 8 – 1115 DEMONSTRATION WAIVER

Uncompensated Care – The District participated in the Section 1115 Demonstration Waiver program, a program designed to benefit rural community hospitals. The District is part of an indigent care affiliation agreement with Bellville St. Joseph Health Center, and St. Luke’s Episcopal Hospital. This agreement is intended to increase funding for the Medicaid population and to access federal funding for the indigent population through the Section 1115 Demonstration Waiver for the Texas Healthcare Transformation and Quality Improvement Program. Under this program, the District transfers certain government funds to the State of Texas. Bellville St. Joseph Health Center and St. Luke’s Episcopal Hospital then provide care to the Medicaid and non-Medicaid indigent in the region and surrounding communities. As part of the affiliation agreement, the District provided \$918,283 and \$1,557,466 in funding to the program for the years ended December 31, 2018 and 2017, respectively.

NOTE 9 – SUBSEQUENT EVENTS

On December 31, 2010, the District entered into an operating lease agreement with Bellville St. Joseph Health Center. As of May 6, 2019, the lease agreement was terminated with certain assets transferred back to the District. The facility opened on May 7, 2019 under the name of Bellville Medical Center.

The date to which events occurring after December 31, 2018, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosures is July 9, 2019, which is the date on which the financial statements were available to be issued.