

Bellville Hospital District

Independent Auditor's Report and Financial Statements

June 30, 2020 and 2019

Bellville Hospital District
June 30, 2020 and 2019

Contents

Independent Auditor's Report..... 1

Financial Statements

Balance Sheets..... 3
Statements of Revenues, Expenses and Changes in Net Position 4
Statements of Cash Flows 5
Notes to Financial Statements 7

Independent Auditor's Report

Board of Directors
Bellville Hospital District
Bellville, Texas

We have audited the accompanying financial statements of Bellville Hospital District (the District) as of and for the year ended June 30, 2020 and the six months ended June 30, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of June 30, 2020 and 2019 and the changes in its financial position and its cash flows for the periods then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

BKD, LLP

Waco, Texas
October 18, 2021

Bellville Hospital District
Balance Sheets
June 30, 2020 and 2019

Assets

	2020	2019
Current Assets		
Cash	\$ 4,148,076	\$ 1,922,708
Patient accounts receivable, net of allowance; 2020 - \$997,000; 2019 - \$619,000	962,749	259,725
Property taxes receivable	28,050	25,126
Supplies	249,045	222,884
Other receivables	69,392	28,109
Prepaid expenses and other	61,459	32,540
Total current assets	5,518,771	2,491,092
 Capital Assets, Net	 6,440,681	 6,734,377
Total assets	\$ 11,959,452	\$ 9,225,469

Liabilities and Net Position

	<u>2020</u>	<u>2019</u>
Current Liabilities		
Current maturities of long-term debt	\$ 137,311	\$ -
Accounts payable	376,889	159,225
Accrued expenses and other	606,188	890,120
Estimated amounts due to third-party payers	850,029	-
Paycheck Protection Program loan	1,132,500	-
Provider Relief Funds	3,521,267	-
	<hr/>	<hr/>
Total current liabilities	6,624,184	1,049,345
Long-term Debt	<hr/>	<hr/>
	2,608,910	2,749,706
	<hr/>	<hr/>
Total liabilities	9,233,094	3,799,051
Net Position		
Net investment in capital assets	3,694,460	3,984,671
Unrestricted	(968,102)	1,441,747
	<hr/>	<hr/>
Total net position	2,726,358	5,426,418
	<hr/>	<hr/>
Total liabilities and net position	\$ 11,959,452	\$ 9,225,469

Bellville Hospital District
Statements of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2020 and Six Months Ended June 30, 2019

	2020	2019
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2020 - \$919,766; 2019 - \$67,844	\$ 8,621,201	\$ 498,937
Other	315,548	664,162
Total operating revenues	8,936,749	1,163,099
Operating Expenses		
Salaries and wages	4,924,911	542,739
Employee benefits and payroll taxes	486,337	68,984
Purchased services and professional fees	3,088,084	558,598
Supplies and other	3,475,874	300,691
Depreciation and amortization	835,269	285,303
Total operating expenses	12,810,475	1,756,315
Operating Loss	(3,873,726)	(593,216)
Nonoperating Revenues (Expenses)		
Interest income	19,840	28,920
Interest expense	(143,784)	(59,338)
Noncapital grants and gifts	29,878	-
Property tax revenue	747,472	126,924
Other nonoperating revenues	147,675	14,887
Total nonoperating revenues (expenses)	801,081	111,393
Deficiency of Revenues Over Expenses Before Special Item and Capital Grants and Contributions	(3,072,645)	(481,823)
Special Item-Net Position Transferred to District (Note 1)	-	1,893,540
Capital Grants and Contributions	372,585	70,944
Increase (Decrease) in Net Position	(2,700,060)	1,482,661
Net Position, Beginning of Year	5,426,418	3,943,757
Net Position, End of Year	\$ 2,726,358	\$ 5,426,418

Bellville Hospital District
Statements of Cash Flows
Year Ended June 30, 2020 and Six Months Ended June 30, 2019

	2020	2019
Operating Activities		
Receipts from and on behalf of patients	\$ 8,790,668	\$ 252,671
Payments to suppliers and contractors	(6,900,586)	(297,027)
Payments to employees	(5,259,713)	(392,643)
Other receipts, net	315,548	664,162
Net cash provided by (used in) operating activities	(3,054,083)	227,163
Noncapital Financing Activities		
Property taxes supporting operations	744,548	448,671
Proceeds from Provider Relief Funds	3,521,267	-
Proceeds from Paycheck Protection Program loan	1,132,500	-
Noncapital grants and gifts	29,878	-
Other noncapital financing receipts, net	147,675	14,887
Net cash provided by noncapital financing activities	5,575,868	463,558
Capital and Related Financing Activities		
Capital grants and gifts	372,585	70,944
Principal paid on long-term debt	(3,485)	(241,380)
Interest paid on long-term debt	(143,784)	(59,338)
Purchase of capital assets	(541,573)	(67,585)
Net cash used in capital and related financing activities	(316,257)	(297,359)
Investing Activities		
Interest on investments	19,840	28,920
Cash paid for transfer of assets and liabilities	-	(175,434)
Net cash provided by (used in) investing activities	19,840	(146,514)
Increase in Cash	2,225,368	246,848
Cash, Beginning of Year	1,922,708	1,675,860
Cash, End of Year	\$ 4,148,076	\$ 1,922,708

Bellville Hospital District
Statements of Cash Flows (Continued)
Year Ended June 30, 2020 and Six Months Ended June 30, 2019

Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided By (Used In) Operating Activities	2020	2019
Operating loss	\$ (3,873,726)	\$ (593,216)
Depreciation and amortization	835,269	285,303
Provision for uncollectible accounts	919,766	67,844
Changes in operating assets and liabilities:		
Patient receivables, net	(1,622,790)	(327,569)
Accounts payable and accrued liabilities	(66,268)	830,199
Estimated third-party payer settlements	850,029	-
Other assets and liabilities	(96,363)	(35,398)
	<u>\$ (3,054,083)</u>	<u>\$ 227,163</u>
Net cash provided by (used in) operating activities		
 Supplemental Cash Flows Information		
Non-cash assets transferred (<i>Note 1</i>)		
Supplies	\$ -	\$ 222,884
Other assets	\$ -	\$ 11,930
Capital assets	\$ -	\$ 2,000,779
Non-cash liabilities transferred (<i>Note 1</i>)		
Accrued payroll	\$ -	\$ 166,619

Bellville Hospital District
Notes to Financial Statements
June 30, 2020 and 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Bellville Hospital District (the District), located in Bellville, Texas, was created by special election on July 27, 1999 under provisions of 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. The District is under the control and management of a nine-member Board of Directors (the Board). Each Board member serves a two-year term.

On December 31, 2010, the District entered into an agreement with Bellville St. Joseph Health Center (BSJHC) formerly known as Bellville General Hospital, a 501(c)(3) corporation, to sell certain assets to BSJHC not including the building and related improvements. The District retained ownership of the building and related improvements and entered into an operating lease agreement with BSJHC, whereby BSJHC utilized the premises to continue to provide hospital and healthcare related services to the local community.

On May 6, 2019, the lease agreement was terminated. As a result, leasehold assets in the amount of \$1,162,318 were transferred to the District from BSJHC. On May 7, 2019, the District and BSJHC entered into a Membership Interest Transfer Agreement (MITA) where certain assets and operations of BSJHC transferred back to the District. Additionally, the District filed a restated certificate of formation and amended and restated its bylaws naming the District as the sole corporate member of BSJHC and renaming it Bellville Medical Center (the Hospital). Under the terms of the MITA, the District made a cash payment to the prior owner in the amount of \$175,434.

The transaction has been recorded as an acquisition of 100 percent equity interest in a legally separate organization that is recorded as a component unit under the provisions of GASB Statement No. 90, *Majority Equity Interests*. In accordance with GASB 90, the District recognized the acquired assets at acquisition value as of the acquisition date. Transactions of the Hospital for the six months ended June 30, 2019 are limited to those that occurred subsequent to the acquisition date. The net position of BSJHC on the date of acquisition totaled \$731,222. The leasehold assets transferred and net position acquired are shown as a special item in the statements of revenues, expenses, and changes in net position. Transferred assets and net position are as follows:

Assets transferred to District from BSJHC	
Cash paid by District	\$ (175,434)
Supplies	222,884
Other assets	11,930
Capital assets	2,000,779
Accounts payable and accrued liabilities	<u>(166,619)</u>
 Total net position transferred	 <u><u>\$ 1,893,540</u></u>

Bellville Hospital District

Notes to Financial Statements

June 30, 2020 and 2019

The Hospital is a not-for-profit entity that primarily earns revenue by providing inpatient, outpatient and emergency care services to patients in Austin County and the surrounding communities. The Hospital is a blended component unit of the District as the District is the sole corporate member of the Hospital. The Hospital does not issue separate financial statements.

Basis of Accounting and Presentation

The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally federal and state grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated or voluntary nonexchange transactions. Government-mandated or voluntary nonexchange transactions that are not program specific, property taxes, investment income and interest on capital asset-related debt are included in nonoperating revenues and expenses. The District first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

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, liabilities and deferred inflows and outflows of resources 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.

Patient Accounts Receivable

The District reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients, and others. The District provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost or market. Costs are determined using the first-in, first-out (FIFO) method.

Bellville Hospital District
Notes to Financial Statements
June 30, 2020 and 2019

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the District:

Land improvements	2 - 25 years
Buildings	35 - 40 years
Leasehold improvements	5 - 10 years
Equipment	3 - 5 years
Computer software	3 - 5 years

Capital Asset Impairment

The District evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the capital asset historical cost and related accumulated depreciation are decreased proportionately such that the net decrease equals the impairment loss.

No asset impairment was recognized during the periods ended June 30, 2020 and 2019.

Compensated Absences

District policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash.

Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized.

Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Bellville Hospital District

Notes to Financial Statements

June 30, 2020 and 2019

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; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice and employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Net Position

Net position of the District is classified in two components on its balance sheets.

- Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets.
- Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The District provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the District does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Property Taxes

The District received approximately 8 percent and 11 percent of its financial support from property taxes in 2020 and 2019, respectively. These funds were used to support operations.

Property taxes are assessed in January and are received beginning October 1 of each year and become delinquent after January 31 of the following year. Revenue from property taxes is recognized in the year for which the taxes are levied.

Bellville Hospital District
Notes to Financial Statements
June 30, 2020 and 2019

Income Taxes

As an essential government function of the County, the District 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.

The Hospital has been recognized as a not-for-profit corporation pursuant to Section 501(c)(3) of the Internal Revenue Code and a similar provision of state law. However, the Hospital is subject to federal income tax on any unrelated business taxable income. The Hospital files tax returns in the U.S. federal jurisdiction.

Note 2: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government'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 or 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.

At June 30, 2020 and 2019, none of the District's bank balances were exposed to custodial credit risk.

The Hospital is a not-for-profit entity, and as such is not subject to the required collateralization law. At June 30, 2020 and 2019, the Hospital's cash accounts exceeded federally insured limits by approximately \$3,558,000 and \$296,000, respectively.

Bellville Hospital District
Notes to Financial Statements
June 30, 2020 and 2019

Note 3: Patient Accounts Receivable

The District grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2020 and 2019 consisted of:

	2020	2019
Medicare	\$ 388,685	\$ 146,785
Medicaid	35,837	21,960
Other third-party payers	214,688	89,758
Patients	1,320,906	619,853
	1,960,116	878,356
Less allowance for uncollectible accounts	997,367	618,631
	\$ 962,749	\$ 259,725

Note 4: Capital Assets

Capital assets activity for the periods ended June 30, 2020 and 2019 was:

	2020				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 18,045	\$ -	\$ -	\$ -	\$ 18,045
Land improvements	197,361	-	-	-	197,361
Buildings and leasehold improvements	10,495,173	10,000	-	-	10,505,173
Equipment	3,430,166	531,573	-	-	3,961,739
Construction in progress	-	-	-	-	-
	14,140,745	541,573	-	-	14,682,318
Less accumulated depreciation:					
Land improvements	194,560	454	-	-	195,014
Buildings and leasehold improvements	4,703,543	763,779	-	-	5,467,322
Equipment	2,508,265	71,036	-	-	2,579,301
	7,406,368	835,269	-	-	8,241,637
Capital assets, net	\$ 6,734,377	\$ (293,696)	\$ -	\$ -	\$ 6,440,681

Bellville Hospital District
Notes to Financial Statements
June 30, 2020 and 2019

	2019				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 18,045	\$ -	\$ -	\$ -	\$ 18,045
Land improvements	197,361	-	-	-	197,361
Buildings and leasehold improvements	9,332,855	-	-	1,162,318	10,495,173
Equipment	2,524,120	67,585	-	838,461	3,430,166
Construction in progress	-	-	-	-	-
	<u>12,072,381</u>	<u>67,585</u>	<u>-</u>	<u>2,000,779</u>	<u>14,140,745</u>
Less accumulated depreciation:					
Land improvements	194,333	227	-	-	194,560
Buildings and leasehold improvements	4,486,404	217,139	-	-	4,703,543
Equipment	2,440,328	67,937	-	-	2,508,265
	<u>7,121,065</u>	<u>285,303</u>	<u>-</u>	<u>-</u>	<u>7,406,368</u>
Capital assets, net	<u>\$ 4,951,316</u>	<u>\$ (217,718)</u>	<u>\$ -</u>	<u>\$ 2,000,779</u>	<u>\$ 6,734,377</u>

Note 5: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at June 30, 2020 and 2019 consisted of:

	2020	2019
Payable to suppliers, contractors, and others	\$ 445,843	\$ 663,646
Payable to employees (including payroll taxes and benefits)	<u>537,234</u>	<u>385,699</u>
	<u>\$ 983,077</u>	<u>\$ 1,049,345</u>

Bellville Hospital District
Notes to Financial Statements
June 30, 2020 and 2019

Note 6: Long-Term Obligations

The following is a summary of long-term obligation transactions for the District for the periods ended June 30, 2020 and 2019:

	2020					
	Beginning Balance	Additions	Deductions	Transfers	Ending Balance	Current Portion
Long-term debt:						
Note payable to bank (A)	\$ 1,241,206	\$ -	\$ -	\$ (1,241,206)	\$ -	\$ -
Note payable to bank (B)	1,508,500	-	(3,485)	1,241,206	2,746,221	137,311
Total long-term debt	\$ 2,749,706	\$ -	\$ (3,485)	\$ -	\$ 2,746,221	\$ 137,311

	2019					
	Beginning Balance	Additions	Deductions	Ending Balance	Ending Balance	Current Portion
Long-term debt:						
Note payable to bank (A)	\$ 1,267,086	\$ -	\$ (25,880)	\$ -	\$ 1,241,206	\$ -
Note payable to bank (B)	1,724,000	-	(215,500)	-	1,508,500	-
Total long-term debt	\$ 2,991,086	\$ -	\$ (241,380)	\$ -	\$ 2,749,706	\$ -

Note Payable to Bank (A)

The note payable to bank is due in March 2021, with principal payable quarterly and interest at 4.00 percent payable quarterly. The note is secured by supplies inventories and certain capital assets. In 2020, the District consolidated this loan with Note B, extending the maturity date to December 2039 with interest payable semi-annually at a rate of 4.50 percent.

Note Payable to Bank (B)

The note payable to bank is due in March 2021, with principal payable annually and interest at 4.00 percent payable annually. The note is secured by supplies inventories and certain capital assets. In 2020, the District consolidated this loan with Note A, extending the maturity date to December 2039 with interest payable semi-annually at a rate of 4.50 percent.

Bellville Hospital District
Notes to Financial Statements
June 30, 2020 and 2019

Aggregate annual maturities of long-term debt at June 30, 2020, are:

Year Ending June 30.	Total to be Paid	Principal	Interest
2021	\$ 257,801	\$ 137,311	\$ 120,490
2022	251,622	137,311	114,311
2023	245,443	137,311	108,132
2024	239,264	137,311	101,953
2025	233,085	137,311	95,774
2026-2030	1,072,772	686,585	386,187
2031-2035	918,297	686,585	231,712
2036-2040	763,736	686,496	77,240
	<u>\$ 3,982,020</u>	<u>\$ 2,746,221</u>	<u>\$ 1,235,799</u>

Revolving Credit Note

On July 15, 2019, the District entered into a revolving credit agreement with a bank for a term of up to five years. The loan has a principal amount of \$2,500,000 with an interest rate of 5.00 percent and is secured by a pledge of District revenues. No amounts were advanced on the loan at June 30, 2020.

Note 7: Net Patient Service Revenue

The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The District is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The District is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid administrative contractor.

Bellville Hospital District

Notes to Financial Statements

June 30, 2020 and 2019

Other. Payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations provide for payment using prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Approximately 70 percent and 71 percent of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the periods ended June 30, 2020 and 2019, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Supplemental Program Revenue

On December 12, 2011, the United States Department of Health and Human Services approved a Medicaid Section 1115(a) demonstration project entitled “Texas Health Transformation Quality Improvement Program” (Waiver). This demonstration expanded Medicaid managed care programs and established two funding pools that assist providers with uncompensated care (UC Pool) costs and promote health system transformation (DSRIP Pool). The revenue from the two funding pools is recognized as earned throughout the related demonstration year.

During the periods ended June 30, 2020 and 2019, the District recognized revenue of approximately \$509,000 and \$0, respectively, from the UC Pool, which is included as net patient service revenue in the accompanying statements of revenues, expenses, and changes in net position. Estimated amounts payable under this program was approximately \$850,000 at June 30, 2020 and is included in estimated amounts due to third-party payers in the accompanying balance sheets.

The programs described above are subject to review and scrutiny by both the Texas Legislature and the Center for Medicare and Medicaid Services (CMS) and the programs could be modified or terminated based on new legislation or regulation in future periods. The funding historically received may not be representative of funding that will be received in future years.

Note 8: Charity Care

In support of its mission, the District voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the District does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the District provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and many times the payments are less than the cost of rendering the services provided.

The costs of charity care provided under the District’s charity care policy was \$60,437 and \$27,319 for the periods ended 2020 and 2019, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Bellville Hospital District
Notes to Financial Statements
June 30, 2020 and 2019

Note 9: Contingencies

Litigation

In the normal course of business, the District is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the District's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The District evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would change this estimate materially in the near term.

Note 10: Management Agreement

In March 2019, the District has entered into a management agreement with ERH II, LLC to provide management and administrative services to the District. The initial term of the agreement is five years with a base management fee of \$30,000 per month.

Note 11: Operating Lease

The District leases various equipment and facilities under operating leases expiring at various dates through 2025. Total rental expense in the periods ended June 30, 2020 and 2019 for all operating leases was approximately \$50,000 and not significant in 2019, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2020, that have initial or remaining lease terms in excess of one year.

Year Ending June 30,	Total to be Paid
2021	\$ 222,780
2022	222,780
2023	222,780
2024	222,780
2025	185,650
	\$ 1,076,770

Bellville Hospital District
Notes to Financial Statements
June 30, 2020 and 2019

Note 12: Pension Plan

The Hospital has a defined contribution plan covering substantially all employees. The Hospital made no contributions to the Plan for the periods ended June 30, 2020 and 2019.

Note 13: Condensed Combining Information

The following tables include condensed combining balance sheet information for the District and its blended component unit as of June 30, 2020 and 2019:

	2020			2019		
	Bellville Hospital District	Bellville Medical Center	Combined Balance	Bellville Hospital District	Bellville Medical Center	Combined Balance
Current Assets						
Cash	\$ 132,041	\$ 4,016,035	\$ 4,148,076	\$ 1,391,167	\$ 531,541	\$ 1,922,708
Patient accounts receivable, net	-	962,749	962,749	-	259,725	259,725
Other receivables	-	69,392	69,392	-	28,109	28,109
Supplies	-	249,045	249,045	-	222,884	222,884
Property taxes receivable, net	28,050	-	28,050	25,126	-	25,126
Prepaid expenses and other	13,677	47,782	61,459	23,086	9,454	32,540
Total current assets	173,768	5,345,003	5,518,771	1,439,379	1,051,713	2,491,092
Capital Assets, Net	5,068,990	1,371,691	6,440,681	5,864,599	869,778	6,734,377
Total assets	\$ 5,242,758	\$ 6,716,694	\$ 11,959,452	\$ 7,303,978	\$ 1,921,491	\$ 9,225,469

Bellville Hospital District
Notes to Financial Statements
June 30, 2020 and 2019

Liabilities and Net Position	2020			2019		
	Bellville Hospital District	Bellville Medical Center	Combined Balance	Bellville Hospital District	Bellville Medical Center	Combined Balance
Current Liabilities						
Current maturities of long-term debt	\$ 137,311	\$ -	\$ 137,311	\$ -	\$ -	\$ -
Accounts payable	84,855	292,034	376,889	36,847	122,378	159,225
Accrued expenses and other	29,353	576,835	606,188	29,353	860,767	890,120
Estimated amounts due to third-party payers	-	850,029	850,029	-	-	-
Paycheck Protection Program loan	-	1,132,500	1,132,500	-	-	-
Provider Relief Funds	-	3,521,267	3,521,267	-	-	-
Total current liabilities	251,519	6,372,665	6,624,184	66,200	983,145	1,049,345
Long-term Debt	2,608,910	-	2,608,910	2,749,706	-	2,749,706
Total liabilities	2,860,429	6,372,665	9,233,094	2,815,906	983,145	3,799,051
Net Position						
Net investment in capital assets	2,322,769	1,371,691	3,694,460	3,114,893	869,778	3,984,671
Unrestricted	59,560	(1,027,662)	(968,102)	1,373,179	68,568	1,441,747
Total net position	2,382,329	344,029	2,726,358	4,488,072	938,346	5,426,418
Total liabilities and net position	\$ 5,242,758	\$ 6,716,694	\$ 11,959,452	\$ 7,303,978	\$ 1,921,491	\$ 9,225,469

The following tables include condensed combining statements of revenues, expenses, and changes in net position information for the District and its blended component unit for the year ended June 30, 2020 and the six months ended June 30, 2019.

Bellville Hospital District
Notes to Financial Statements
June 30, 2020 and 2019

	<u>2020</u>			<u>2019</u>		
	<u>Bellville Hospital District</u>	<u>Bellville Medical Center</u>	<u>Combined Balance</u>	<u>Bellville Hospital District</u>	<u>Bellville Medical Center</u>	<u>Combined Balance</u>
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts	\$ (757,019)	\$ 9,378,220	\$ 8,621,201	\$ -	\$ 498,937	\$ 498,937
Other	150,000	165,548	315,548	552,169	111,993	664,162
Total operating revenues	<u>(607,019)</u>	<u>9,543,768</u>	<u>8,936,749</u>	<u>552,169</u>	<u>610,930</u>	<u>1,163,099</u>
Operating Expenses						
Salaries and wages	7,275	4,917,636	4,924,911	4,425	538,314	542,739
Employee benefits and payroll taxes	-	486,337	486,337	-	68,984	68,984
Purchased services and professional fees	135,239	2,952,845	3,088,084	303,766	254,832	558,598
Supplies and other	96,817	3,379,057	3,475,874	114,176	186,515	300,691
Depreciation and amortization	795,609	39,660	835,269	249,035	36,268	285,303
Total operating expenses	<u>1,034,940</u>	<u>11,775,535</u>	<u>12,810,475</u>	<u>671,402</u>	<u>1,084,913</u>	<u>1,756,315</u>
Operating Loss	<u>(1,641,959)</u>	<u>(2,231,767)</u>	<u>(3,873,726)</u>	<u>(119,233)</u>	<u>(473,983)</u>	<u>(593,216)</u>
Nonoperating Revenues (Expenses)						
Interest income	6,286	13,554	19,840	24,219	4,701	28,920
Interest expense	(137,877)	(5,907)	(143,784)	(59,338)	-	(59,338)
Transfer to affiliate	(1,075,000)	1,075,000	-	(500,000)	500,000	-
Noncapital grants and gifts	-	29,878	29,878	-	-	-
Property tax revenue	747,472	-	747,472	126,924	-	126,924
Other nonoperating revenues (expenses)	(4,665)	152,340	147,675	13,915	972	14,887
Total nonoperating revenues (expenses)	<u>(463,784)</u>	<u>1,264,865</u>	<u>801,081</u>	<u>(394,280)</u>	<u>505,673</u>	<u>111,393</u>
Excess (Deficiency) of Revenues Over Expenses Before						
Special Item and Capital Grants and Contributions	(2,105,743)	(966,902)	(3,072,645)	(513,513)	31,690	(481,823)
Special Item-Net Position Transferred to District	-	-	-	986,884	906,656	1,893,540
Capital Grants and Contributions	-	372,585	372,585	70,944	-	70,944
Increase (Decrease) in Net Position	(2,105,743)	(594,317)	(2,700,060)	544,315	938,346	1,482,661
Net Position, Beginning of Year	<u>4,488,072</u>	<u>938,346</u>	<u>5,426,418</u>	<u>3,943,757</u>	<u>-</u>	<u>3,943,757</u>
Net Position, End of Year	<u>\$ 2,382,329</u>	<u>\$ 344,029</u>	<u>\$ 2,726,358</u>	<u>\$ 4,488,072</u>	<u>\$ 938,346</u>	<u>\$ 5,426,418</u>

Bellville Hospital District
Notes to Financial Statements
June 30, 2020 and 2019

The following tables include condensed combining statements of cash flow information for the District and its blended component unit for the periods ended June 30, 2020 and 2019.

	2020			2019		
	Bellville Hospital District	Bellville Medical Center	Combined Balance	Bellville Hospital District	Bellville Medical Center	Combined Balance
Net Cash Provided by (Used in)						
Operating Activities	\$ (788,933)	\$ (2,265,150)	\$ (3,054,083)	\$ 133,710	\$ 93,453	\$ 227,163
Noncapital Financing Activities	(335,117)	5,910,985	5,575,868	(37,414)	500,972	463,558
Capital and Related Financing Activities	(141,362)	(174,895)	(316,257)	(229,774)	(67,585)	(297,359)
Investing Activities	6,286	13,554	19,840	24,219	(170,733)	(146,514)
Increase (Decrease) in Cash	(1,259,126)	3,484,494	2,225,368	(109,259)	356,107	246,848
Cash Beginning of Year	1,566,601	356,107	1,922,708	1,675,860	-	1,675,860
Cash End of Year	<u>\$ 307,475</u>	<u>\$ 3,840,601</u>	<u>\$ 4,148,076</u>	<u>\$ 1,566,601</u>	<u>\$ 356,107</u>	<u>\$ 1,922,708</u>

Note 14: Future Change in Accounting Principle

GASB Statement No. 87, Leases

GASB Statement No. 87, Leases (GASB 87), provides a new framework for accounting for leases under the principle that leases are financings. Leases will no longer be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly.

GASB 87 is effective for financial statements for the District's fiscal year ending June 30, 2022. Earlier application is encouraged. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun.

Bellville Hospital District
Notes to Financial Statements
June 30, 2020 and 2019

Note 15: COVID-19 Pandemic & CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

While some of these policies have been eased and states have lifted moratoriums on non-emergent procedures, some restrictions remain in place, and some state and local governments are reimposing certain restrictions due to increasing rates of COVID-19 cases.

The extent of the COVID-19 pandemic's adverse effect on the District's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the District's control and ability to forecast.

Because of these and other uncertainties, the District cannot estimate the length or severity of the effect of the pandemic on the District's business. Decreases in cash flows and results of operations may have an effect on the inputs and assumptions used in significant accounting estimates, including estimated bad debts and contractual adjustments related to uninsured and other patient accounts.

Provider Relief Fund

During the year ended June 30, 2020, the District received \$3.5 million of distributions from the CARES Act Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the District is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services.

The District is accounting for such payments as conditional contributions. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the District's operating revenues and expenses through year-end, the District did not recognize any revenue related to the Provider Relief Fund as of June 30, 2020. The unrecognized amount of Provider Relief Fund distributions are recorded as a liability in the accompanying balance sheets.

Bellville Hospital District

Notes to Financial Statements

June 30, 2020 and 2019

Guidance for reporting use of Provider Relief Fund payments received has changed significantly since distributions were authorized through the CARES Act in March 2020. The District has evaluated the “Post-Payment Notice of Reporting Requirements” (Notice) and the Frequently Asked Questions (FAQs) issued by HHS subsequent to June 30, 2020 in accordance with GASB codification Section 2250 and have concluded as follows:

- June 2020 FAQs – recognized
- September 2020 Notice – nonrecognized
- October 2020 Notice & FAQs – nonrecognized
- November 2020 Notice – nonrecognized
- January 2021 Notice – nonrecognized
- June 2021 Notice and FAQs – nonrecognized
- July 1, 2021 FAQs – nonrecognized

The District has not recognized revenue from the Provider Relief Fund based on guidance issued by HHS as of June 30, 2020 and any clarifications issued by HHS subsequent to year-end, including any referenced above as recognized subsequent events. The District will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the District’s revenues and expenses. The terms and conditions governing the Provider Relief Fund are complex and subject to interpretation and change. If the District is unable to attest to or comply with current or future terms and conditions, its ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the financial statements compared to the District’s Provider Relief Fund reporting could differ. Provider Relief Fund payments are subject to government oversight, including potential audits.

Medicare Accelerated and Advanced Payment Program

During the year ended June 30, 2020, the District requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. These amounts are expected to be recaptured by CMS according to the payback provisions.

Effective September 30, 2020, the payback provisions were revised and extended the payback period to begin one year after the issuance of the advance payment through a phased payback period approach. The first 11 months of the payback period will be at 25 percent of the remittance advice payment followed by a six-month payback period at 50 percent of the remittance advice payment. After 29 months, CMS expects any amount not paid back through the withhold amounts to be paid back in a lump sum or interest will begin to accrue subsequent to the 29 months at a rate of 4 percent.

During the year ended June 30, 2020, the District did not receive any amounts from these accelerated Medicare payment requests.

Subsequent to year-end, the District received approximately \$1.1 million in Medicare Accelerated and Advanced Payment Program distributions.

Bellville Hospital District
Notes to Financial Statements
June 30, 2020 and 2019

Paycheck Protection Program (PPP) Loan

The CARES Act and other subsequent legislation also provides a Small Business Administration (SBA) loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. The Payroll Protection Program (PPP) loans will be forgiven if all employee retention criteria are met and the funds are used for eligible expenses. The District received a PPP loan of \$1.1 million in April 2020. The loan has an interest rate of 1 percent, with payments due monthly starting six months after the receipt of the loan. The loan, if not forgiven, matures in April, 2022.

The District is accounting for the PPP loan in accordance with GASB Statement 62. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan will be recognized as a gain in the financial statements in the period the debt is legally released. The PPP loan is included on the accompanying balance sheet within current liabilities.

Subsequent to year-end, the District received legal notice that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment in 2021.