

Bellville Hospital District

Independent Auditor's Reports and Financial Statements

June 30, 2021 and 2020

Bellville Hospital District

June 30, 2021 and 2020

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
 Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i> – Independent Auditor's Report.....	
	26
Schedule of Findings and Responses.....	28



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Independent Auditor's Report

Board of Directors
Bellville Hospital District
Bellville, Texas

Report on the Financial Statements

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

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. Our 2021 audit was also conducted in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2021 and 2020 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.

Emphasis of Matter

The accompanying financial statements have been prepared assuming the District will continue as a going concern. As discussed in *Note 1*, the District has suffered recurring losses, working capital deficiencies, and negative cash flows from operating activities, which raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in *Note 1*. 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 this matter.

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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we also have issued our report dated September 7, 2022, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

FORVIS, LLP

Waco, Texas
September 7, 2022

Assets

	2021	2020
Current Assets		
Cash	\$ 383,667	\$ 4,148,076
Patient accounts receivable, net of allowance; 2021 - \$3,654,000; 2020 - \$997,000	1,227,212	962,749
Estimated amounts due from third-party payers	11,501	-
Property taxes receivable	28,050	28,050
Supplies	249,045	249,045
Other receivables	81,654	69,392
Prepaid expenses and other	296,053	61,459
Total current assets	2,277,182	5,518,771
Capital Assets, Net	6,167,412	6,440,681
Other Assets	66,272	-
Total assets	\$ 8,510,866	\$ 11,959,452

See Notes to Financial Statements

Liabilities and Net Position

	2021	2020
Current Liabilities		
Current maturities of long-term debt	\$ 156,395	\$ 137,311
Accounts payable	798,815	376,889
Accrued expenses and other	914,382	606,188
Estimated amounts due to third-party payers	1,112,167	850,029
Paycheck Protection Program loan	-	1,132,500
Provider Relief Funds	-	3,521,267
Total current liabilities	2,981,759	6,624,184
Long-term Debt	2,524,976	2,608,910
Estimated Amounts Due to Third-Party Payers	509,819	-
Total liabilities	6,016,554	9,233,094
Net Position		
Net investment in capital assets	3,486,041	3,694,460
Unrestricted	(991,729)	(968,102)
Total net position	2,494,312	2,726,358
Total liabilities and net position	\$ 8,510,866	\$ 11,959,452

Bellville Hospital District

Statements of Revenues, Expenses and Changes in Net Position

Years Ended June 30, 2021 and 2020

	2021	2020
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2021 - \$2,262,794; 2020 - \$919,766	\$ 10,693,782	\$ 8,621,201
Other	622,339	315,548
Total operating revenues	11,316,121	8,936,749
Operating Expenses		
Salaries and wages	7,120,961	4,924,911
Employee benefits and payroll taxes	1,532,478	1,196,027
Purchased services and professional fees	4,442,703	3,088,084
Supplies and other	3,594,763	2,766,184
Depreciation and amortization	1,042,199	835,269
Total operating expenses	17,733,104	12,810,475
Operating Loss	(6,416,983)	(3,873,726)
Nonoperating Revenues (Expenses)		
Interest income	72,480	19,840
Interest expense	(121,908)	(143,784)
Noncapital grants and gifts	54,479	29,878
Property tax revenue	1,507,703	747,472
Provider relief funds	3,521,267	-
Other nonoperating revenues	18,416	147,675
Total nonoperating revenues (expenses)	5,052,437	801,081
Deficiency of Revenues Over Expenses Before Special Item and Capital Grants and Contributions	(1,364,546)	(3,072,645)
Special Item-Forgiveness of PPP Loan	1,132,500	-
Capital Grants and Contributions	-	372,585
Decrease in Net Position	(232,046)	(2,700,060)
Net Position, Beginning of Year	2,726,358	5,426,418
Net Position, End of Year	\$ 2,494,312	\$ 2,726,358

Bellville Hospital District
Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 11,323,111	\$ 8,790,668
Payments to suppliers and contractors	(7,837,396)	(6,900,586)
Payments to employees	(8,481,392)	(5,259,713)
Other receipts, net	<u>532,484</u>	<u>315,548</u>
Net cash used in operating activities	<u>(4,463,193)</u>	<u>(3,054,083)</u>
Noncapital Financing Activities		
Property taxes supporting operations	1,507,703	744,548
Proceeds from Provider Relief Funds	-	3,521,267
Proceeds from Paycheck Protection Program loan	-	1,132,500
Noncapital grants and gifts	54,479	29,878
Other noncapital financing receipts, net	<u>18,416</u>	<u>147,675</u>
Net cash provided by noncapital financing activities	<u>1,580,598</u>	<u>5,575,868</u>
Capital and Related Financing Activities		
Capital grants and gifts	-	372,585
Principal paid on long-term debt	(137,311)	(3,485)
Interest paid on long-term debt	(120,514)	(143,784)
Purchase of capital assets	<u>(696,469)</u>	<u>(541,573)</u>
Net cash used in capital and related financing activities	<u>(954,294)</u>	<u>(316,257)</u>
Investing Activities		
Interest on investments	<u>72,480</u>	<u>19,840</u>
Net cash provided by investing activities	<u>72,480</u>	<u>19,840</u>
Increase (Decrease) in Cash	(3,764,409)	2,225,368
Cash, Beginning of Year	<u>4,148,076</u>	<u>1,922,708</u>
Cash, End of Year	<u>\$ 383,667</u>	<u>\$ 4,148,076</u>

Bellville Hospital District
Statements of Cash Flows (Continued)
Years Ended June 30, 2021 and 2020

Reconciliation of Net Operating Revenues (Expenses) to	2021	2020
Net Cash Used In Operating Activities		
Operating loss	\$ (6,416,983)	\$ (3,873,726)
Depreciation and amortization	1,042,199	835,269
Provision for uncollectible accounts	2,262,794	919,766
Changes in operating assets and liabilities:		
Patient receivables, net	(2,527,257)	(1,622,790)
Accounts payable and accrued liabilities	728,726	(66,268)
Estimated third-party payer settlements	760,456	850,029
Other assets and liabilities	(313,128)	(96,363)
	<u>\$ (4,463,193)</u>	<u>\$ (3,054,083)</u>
Net cash used in operating activities		
	<u>\$ (4,463,193)</u>	<u>\$ (3,054,083)</u>
Supplemental Cash Flows Information		
Capital assets purchased through capital lease	\$ 72,461	\$ -
Forgiveness of PPP loan	\$ 1,132,500	\$ -

Bellville Hospital District

Notes to Financial Statements

June 30, 2021 and 2020

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).

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.

Management's Consideration of Going Concern Matters

The District has incurred losses, recurring negative cash flows and has a deficiency of working capital at June 30, 2021 and 2020. These conditions raise substantial doubt regarding the ability of the District to continue as a going concern. The financial statements have been prepared assuming the District will continue as a going concern, realizing assets and liquidating liabilities in the ordinary course of business. Management is continuing to focus on various strategies to mitigate these conditions. These include continuing to identify opportunities to increase inpatient volume by recruiting physicians, decrease operating expenses, particularly contract labor through recruiting and retention efforts, increasing collection efforts on patient receivables, increased government program participation, and eliminating unprofitable services. Management also continues to work with lenders on financing strategies. Additionally, management has applied for the IRS Employee Retention Credit. Although not currently planned, realization of assets in other than the ordinary course of business in order to meet liquidity needs could incur losses not reflected in these financial statements.

Bellville Hospital District

Notes to Financial Statements

June 30, 2021 and 2020

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, 2021 and 2020

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	5 – 25 years
Buildings and improvements	25 – 40 years
Equipment	3 – 20 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 years ended June 30, 2021 and 2020.

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, 2021 and 2020

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 9 percent and 8 percent of its financial support from property taxes in 2021 and 2020, 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, 2021 and 2020

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.

Reclassifications

Certain reclassifications have been made to the 2020 financial statements to conform to the 2021 presentation. The reclassifications had no effect on the changes in financial position.

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, 2021 and 2020, 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, 2021 and 2020, the Hospital's cash accounts exceeded federally insured limits by approximately \$489,000 and \$3,558,000, respectively.

Bellville Hospital District

Notes to Financial Statements

June 30, 2021 and 2020

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, 2021 and 2020 consisted of:

	2021	2020
Medicare	\$ 494,701	\$ 388,685
Medicaid	71,321	35,837
Other third-party payers	518,557	214,688
Patients	<u>3,796,575</u>	<u>1,320,906</u>
	<u>4,881,154</u>	<u>1,960,116</u>
Less allowance for uncollectible accounts	<u>3,653,942</u>	<u>997,367</u>
	<u><u>\$ 1,227,212</u></u>	<u><u>\$ 962,749</u></u>

Note 4: Capital Assets

Capital assets activity for the periods ended June 30, 2021 and 2020 was:

	2021				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 18,045	\$ -	\$ -	\$ -	\$ 18,045
Land improvements	197,361	-	-	-	197,361
Buildings and leasehold improvements	10,505,173	-	-	-	10,505,173
Equipment	3,961,739	690,749	-	-	4,652,488
Construction in progress	<u>-</u>	<u>78,181</u>	<u>-</u>	<u>-</u>	<u>78,181</u>
	<u>14,682,318</u>	<u>768,930</u>	<u>-</u>	<u>-</u>	<u>15,451,248</u>
Less accumulated depreciation:					
Land improvements	195,014	454	-	-	195,468
Buildings and leasehold improvements	5,467,322	860,329	-	-	6,327,651
Equipment	<u>2,579,301</u>	<u>181,416</u>	<u>-</u>	<u>-</u>	<u>2,760,717</u>
	<u>8,241,637</u>	<u>1,042,199</u>	<u>-</u>	<u>-</u>	<u>9,283,836</u>
Capital assets, net	<u><u>\$ 6,440,681</u></u>	<u><u>\$ (273,269)</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 6,167,412</u></u>

Bellville Hospital District

Notes to Financial Statements

June 30, 2021 and 2020

	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	-	-	-	-	-
	<u>14,140,745</u>	<u>541,573</u>	<u>-</u>	<u>-</u>	<u>14,682,318</u>
Less accumulated depreciation:					
Land improvements	194,560	454	-	-	195,014
Buildings and leasehold improvements	4,703,543	763,779	-	-	5,467,322
Equipment	<u>2,508,265</u>	<u>71,036</u>	<u>-</u>	<u>-</u>	<u>2,579,301</u>
	<u>7,406,368</u>	<u>835,269</u>	<u>-</u>	<u>-</u>	<u>8,241,637</u>
Capital assets, net	<u>\$ 6,734,377</u>	<u>\$ (293,696)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,440,681</u>

Note 5: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at June 30, 2021 and 2020, consisted of:

	2021	2020
Payable to suppliers, contractors, and others	\$ 1,002,522	\$ 445,843
Payable to employees (including payroll taxes and benefits)	<u>710,675</u>	<u>537,234</u>
	<u>\$ 1,713,197</u>	<u>\$ 983,077</u>

Bellville Hospital District

Notes to Financial Statements

June 30, 2021 and 2020

Note 6: Long-Term Obligations

Long-term Debt

The following is a summary of long-term obligation transactions for the District for the periods ended June 30, 2021 and 2020:

	2021					
	Beginning Balance	Additions	Deductions	Transfers	Ending Balance	Current Portion
Long-term debt:						
Note payable to bank (B)	\$ 2,746,221	\$ -	\$ (137,311)	\$ -	\$ 2,608,910	\$ 137,311
Capital lease obligations	-	72,461	-	-	72,461	19,084
Total long-term debt	<u>\$ 2,746,221</u>	<u>\$ 72,461</u>	<u>\$ (137,311)</u>	<u>\$ -</u>	<u>\$ 2,681,371</u>	<u>\$ 156,395</u>

	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	<u>\$ 2,749,706</u>	<u>\$ -</u>	<u>\$ (3,485)</u>	<u>\$ -</u>	<u>\$ 2,746,221</u>	<u>\$ 137,311</u>

Note Payable to Bank (A)

The note payable to bank consolidated with Note B in 2020.

Note Payable to Bank (B)

The note payable to bank was originally due in March 2021, with principal payable annually and interest at 4.00 percent payable annually. 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. The note is secured by supplies inventories and certain capital assets.

Bellville Hospital District

Notes to Financial Statements

June 30, 2021 and 2020

Aggregate annual maturities of the note payable debt at June 30, 2021, are:

Year Ending June 30,	Total to be Paid	Principal	Interest
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	226,906	137,311	89,595
2027-2031	1,041,877	686,585	355,292
2032-2036	887,402	686,585	200,817
2037-2040	598,617	549,185	49,432
	<u>\$ 3,724,216</u>	<u>\$ 2,608,910</u>	<u>\$ 1,115,306</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, 2021 and 2020. Subsequent to year end, \$2,500,000 was advanced on the note and the amount available for draw down was increased to \$5,000,000 with quarterly interest payments and final payment of all unpaid principal on August 31, 2023.

Capital Lease Obligations

The District is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases totaled \$72,461 June 30, 2021, net of accumulated amortization of \$6,038 at June 30, 2021. The following is a schedule by year of future minimum lease payments under the capital lease including interest at 4.00 percent together with the present value of the future minimum lease payments as of June 30, 2021:

Year Ending June 30	
2022	\$ 21,515
2023	16,014
2024	16,014
2025	16,013
2026	9,342
Total minimum lease payments	78,898
Less amount representing interest	6,437
Present value of future minimum lease payments	<u>\$ 72,461</u>

Bellville Hospital District

Notes to Financial Statements

June 30, 2021 and 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 certain 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.

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 74 percent and 70 percent of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2021 and 2020, 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.

The Waiver was originally effective from December 12, 2011 to September 30, 2016, and extended through December 2017, as the Texas Health and Human Services Commission (HHSC) and the Centers for Medicare and Medicaid Services (CMS) negotiated a longer-term extension. On December 21, 2017, HHSC received an approved extension from CMS for the period of January 1, 2018 through September 30, 2022. Among other changes, the approved plan required a change in the methodology used to allocate UC funds and a phase out of the DSRIP program over the five-year period.

Bellville Hospital District

Notes to Financial Statements

June 30, 2021 and 2020

On April 22, 2022, CMS approved a ten year extension of the Waiver through September 30, 2032. The DSRIP pool ended effective September 30, 2021, and the Waiver extension expanded and added other directed payment programs and made other administrative changes to reflect CMS policy changes beginning September 1, 2021. The District has not yet determined the full financial impact of the Waiver extension.

During the years ended June 30, 2021 and 2020, the District recognized revenue of approximately \$397,000 and \$509,000, 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 \$537,000 and \$850,000 at June 30, 2021 and 2020, respectively, 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 \$106,692 and \$60,437, for the years ended 2021 and 2020, 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, 2021 and 2020

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 years ended June 30, 2021 and 2020 for all operating leases was approximately \$577,000 and \$50,000, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of June 30, 2021, that have initial or remaining lease terms in excess of one year.

Year Ending June 30	Total to be Paid
2022	\$ 261,190
2023	262,525
2024	263,906
2025	228,409
	<u>\$ 1,016,030</u>

Bellville Hospital District

Notes to Financial Statements

June 30, 2021 and 2020

Note 12: Pension Plan

The District has a defined contribution plan covering substantially all employees. The District made no contributions to the Plan for the years ended June 30, 2021 and 2020.

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, 2021 and 2020:

	2021			2020		
	Bellville Hospital District	Bellville Medical Center	Combined Balance	Bellville Hospital District	Bellville Medical Center	Combined Balance
Assets						
Current Assets						
Cash	\$ 177,842	\$ 205,825	\$ 383,667	\$ 132,041	\$ 4,016,035	\$ 4,148,076
Patient accounts receivable, net	-	1,227,212	1,227,212	-	962,749	962,749
Estimated amounts due from third-party payers	-	11,501	11,501	-	-	-
Property taxes receivable, net	28,050	-	28,050	28,050	-	28,050
Supplies	-	249,045	249,045	-	249,045	249,045
Other receivables	-	81,654	81,654	-	69,392	69,392
Prepaid expenses and other	126,609	169,444	296,053	13,677	47,782	61,459
Total current assets	332,501	1,944,681	2,277,182	173,768	5,345,003	5,518,771
Capital Assets, Net	4,345,462	1,821,950	6,167,412	5,068,990	1,371,691	6,440,681
Other Assets	66,272	-	66,272	-	-	-
Total assets	\$ 4,744,235	\$ 3,766,631	\$ 8,510,866	\$ 5,242,758	\$ 6,716,694	\$ 11,959,452

Bellville Hospital District

Notes to Financial Statements

June 30, 2021 and 2020

	2021			2020		
	Bellville Hospital District	Bellville Medical Center	Combined Balance	Bellville Hospital District	Bellville Medical Center	Combined Balance
Liabilities and Net Position						
Current Liabilities						
Current maturities of long-term debt	\$ 137,311	\$ 19,084	\$ 156,395	\$ 137,311	\$ -	\$ 137,311
Accounts payable	94,461	704,354	798,815	84,855	292,034	376,889
Accrued expenses and other	29,353	885,029	914,382	29,353	576,835	606,188
Estimated amounts due to third-party payers	147,150	965,017	1,112,167	-	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	408,275	2,573,484	2,981,759	251,519	6,372,665	6,624,184
Long-term Debt	2,471,599	53,377	2,524,976	2,608,910	-	2,608,910
Estimated Amounts Due to Third-Party Payers	-	509,819	509,819	-	-	-
Total liabilities	2,879,874	3,136,680	6,016,554	2,860,429	6,372,665	9,233,094
Net Position						
Net investment in capital assets	1,736,552	1,749,489	3,486,041	2,322,769	1,371,691	3,694,460
Unrestricted	127,809	(1,119,538)	(991,729)	59,560	(1,027,662)	(968,102)
Total net position	1,864,361	629,951	2,494,312	2,382,329	344,029	2,726,358
Total liabilities and net position	\$ 4,744,235	\$ 3,766,631	\$ 8,510,866	\$ 5,242,758	\$ 6,716,694	\$ 11,959,452

Bellville Hospital District

Notes to Financial Statements

June 30, 2021 and 2020

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 years ended June 30, 2021 and 2020.

	2021			2020		
	Bellville Hospital District	Bellville Medical Center	Combined Balance	Bellville Hospital District	Bellville Medical Center	Combined Balance
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts	\$ (229,668)	\$ 10,923,450	\$ 10,693,782	\$ (757,019)	\$ 9,378,220	\$ 8,621,201
Other	301,885	320,454	622,339	150,000	165,548	315,548
Total operating revenues	72,217	11,243,904	11,316,121	(607,019)	9,543,768	8,936,749
Operating Expenses						
Salaries and wages	7,200	7,113,761	7,120,961	7,275	4,917,636	4,924,911
Employee benefits and payroll taxes	-	1,532,478	1,532,478	-	1,196,027	1,196,027
Purchased services and professional fees	21,800	4,420,903	4,442,703	135,239	2,952,845	3,088,084
Supplies and other	79,423	3,515,340	3,594,763	96,817	2,669,367	2,766,184
Depreciation and amortization	723,528	318,671	1,042,199	795,609	39,660	835,269
Total operating expenses	831,951	16,901,153	17,733,104	1,034,940	11,775,535	12,810,475
Operating Loss	(759,734)	(5,657,249)	(6,416,983)	(1,641,959)	(2,231,767)	(3,873,726)
Nonoperating Revenues (Expenses)						
Interest income	66,978	5,502	72,480	6,286	13,554	19,840
Interest expense	(120,262)	(1,646)	(121,908)	(137,877)	(5,907)	(143,784)
Transfer to affiliate	(1,200,000)	1,200,000	-	(1,075,000)	1,075,000	-
Noncapital grants and gifts	-	54,479	54,479	-	29,878	29,878
Property tax revenue	1,507,703	-	1,507,703	747,472	-	747,472
Provider relief funds	-	3,521,267	3,521,267	-	-	-
Other nonoperating revenues (expenses)	(12,653)	31,069	18,416	(4,665)	152,340	147,675
Total nonoperating revenues (expenses)	241,766	4,810,671	5,052,437	(463,784)	1,264,865	801,081
Deficiency of Revenues Over Expenses Before Special Item and Capital Grants and Contributions	(517,968)	(846,578)	(1,364,546)	(2,105,743)	(966,902)	(3,072,645)
Special Item-Forgiveness of PPP Loan	-	1,132,500	1,132,500	-	-	-
Capital Grants and Contributions	-	-	-	-	372,585	372,585
Decrease in Net Position	(517,968)	285,922	(232,046)	(2,105,743)	(594,317)	(2,700,060)
Net Position, Beginning of Year	2,382,329	344,029	2,726,358	4,488,072	938,346	5,426,418
Net Position, End of Year	\$ 1,864,361	\$ 629,951	\$ 2,494,312	\$ 2,382,329	\$ 344,029	\$ 2,726,358

Bellville Hospital District

Notes to Financial Statements

June 30, 2021 and 2020

The following tables include condensed combining statements of cash flow information for the District and its blended component unit for the years ended June 30, 2021 and 2020.

	2021			2020		
	Bellville Hospital District	Bellville Medical Center	Combined Balance	Bellville Hospital District	Bellville Medical Center	Combined Balance
Net Cash Provided by (Used in)						
Operating activities	\$ (60,048)	\$ (4,403,145)	\$ (4,463,193)	\$ (788,933)	\$ (2,265,150)	\$ (3,054,083)
Noncapital financing activities	295,050	1,285,548	1,580,598	(335,117)	5,910,985	5,575,868
Capital and related financing activities	(256,179)	(698,115)	(954,294)	(141,362)	(174,895)	(316,257)
Investing activities	66,978	5,502	72,480	6,286	13,554	19,840
Increase (Decrease) in Cash	45,801	(3,810,210)	(3,764,409)	(1,259,126)	3,484,494	2,225,368
Cash, Beginning of Year	132,041	4,016,035	4,148,076	1,391,167	531,541	1,922,708
Cash, End of Year	<u>\$ 177,842</u>	<u>\$ 205,825</u>	<u>\$ 383,667</u>	<u>\$ 132,041</u>	<u>\$ 4,016,035</u>	<u>\$ 4,148,076</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, 2021 and 2020

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, which resumed at different dates during the fiscal year.

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.

Subsequent to year-end, the District received an additional \$250,000 in Provider Relief Fund distributions.

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 recognized revenue related to the Provider Relief Fund for the year ended June 30, 2021 of \$3.5 million which is included within nonoperating revenue in the accompanying statements of revenues, expenses and changes in net position. The unrecognized amount of Provider Relief Fund distributions are recorded as a liability in the accompanying balance sheets at June 30, 2020.

Bellville Hospital District

Notes to Financial Statements

June 30, 2021 and 2020

The District has recognized revenue from the Provider Relief Fund based on guidance issued by HHS as of June 30, 2021, 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, 2021, the District received approximately \$1.1 million in Medicare Accelerated and Advanced Payment Program distributions. The unapplied amount of accelerated Medicare payment requests of \$1.1 million are recorded in estimated amounts due to third-party payors in the accompanying balance sheets at June 30, 2021.

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 Paycheck 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.

Bellville Hospital District
Notes to Financial Statements
June 30, 2021 and 2020

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 at June 30, 2020.

In 2021, the District received legal notice that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment in 2021.



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Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Independent Auditor's Report

Board of Directors
Bellville Hospital District
Bellville, Texas

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Bellville Hospital District (the District), which comprise the balance sheet as of June 30, 2021, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated September 7, 2022.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

The District's Response to Findings

The District's response to the findings identified in our audit are described in the accompanying schedule of findings and responses. The District's response was not subjected to the auditing procedures applied in the audit of the financial statements, and accordingly, we express no opinion on it.

Purpose of this Report

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

FORVIS,LLP

Waco, Texas
September 7, 2022

Bellville Hospital District

Schedule of Findings and Responses

Year Ended June 30, 2021

Reference Number	Finding
2021-001	<p>Segregation of Duties</p> <p>Criteria: Personnel functions and duties that create the ability to perpetrate and conceal fraud should be segregated. Generally, access, monitoring, and recording responsibilities should be assigned to different individuals.</p> <p>Condition: The District has a lack of segregation of duties regarding the cash receipts and disbursements and payroll transaction cycles.</p> <p>Context: Within the payroll cycle, the chief financial officer and human resources manager can change employee data and timesheet data and prepare and handle paychecks.</p> <p>Within the cash disbursement cycle, the chief financial officer, controller, and accounts payable clerk can access most facets of the cash disbursement cycle including adding new vendors, recording invoices, preparing checks and handling checks after signing, and preparing bank reconciliations.</p> <p>Within the cash receipts cycle, the admission clerk can authorize electronic fund transactions and change master files related to patient charges and adjustments. The data entry clerk can receive patient payments and record adjustments to patient accounts. The business office supervisor can receive patient payments and record adjustments to patient accounts.</p> <p>Several personnel, as noted above, can post journal entries and handle cash.</p> <p>Effect: The potential ability to perpetrate and conceal fraud.</p> <p>Cause: The District is a small entity with a limited number of personnel, which causes incompatible duties to be assigned to certain individuals. The above-mentioned segregation of duties issued have certain mitigating or compensating controls in place but are considered control deficiencies by design of the District's internal control system.</p>

Bellville Hospital District

Schedule of Findings and Responses (Continued)

Year Ended June 30, 2021

Reference Number	Finding
	<p>Recommendation: As it relates to the payroll cycle, the District should attempt to separate the personnel functions with the ability to change payroll master data and time data from those with the ability to prepare and handle paychecks. As it relates to the cash disbursement cycle, the District should attempt to separate personnel functions with the ability to add new vendors from those with the ability to record invoices and prepare checks, and the ability to prepare checks should be segregated from the reconciliation of the related bank statements. As it relates to the cash receipts cycle, the District should attempt to separate the personnel functions with the ability to handle or direct payments from those with the ability to record adjustments to patient accounts or change charge data. The ability to post journal entries should be separated from the ability to handle cash and journal entries should have a secondary review documented prior to posting. Additionally, we recommend management periodically re-evaluate the cost versus the benefit of further segregation of duties or addition of monitoring or other compensating controls and implement those changes it deems appropriate for which the benefits are determined to exceed costs.</p> <p>Views of responsible officials and planned corrective actions: We understand the importance of the segregation of duties as it relates to maintaining internal control. As mentioned, the District does have limited personnel in certain areas that creates a lack of segregation of duties, but we will try to segregate as resources allow.</p>
2021-002	<p>Financial Reporting Process</p> <p>Criteria: Management is responsible for establishing and maintaining effective internal control over external financial reporting.</p> <p>Condition: Accurate valuation of certain estimates and account reconciliations were not performed timely. The District's financial statements required adjustments to be in conformity with accounting principles generally accepted in the United States of America (GAAP).</p> <p>Context: The District's financial statements should be presented in conformity with GAAP. Accurate valuation of estimates and timely account reconciliations were not performed.</p> <p>Effect: Adjusting entries were proposed.</p> <p>Cause: A formal review process was not performed on all significant balance sheet accounts.</p> <p>Recommendation: Management should ensure controls in place are functioning to assure financial statements are prepared in accordance with GAAP, particularly as it relates to significant financial statement estimates.</p> <p>Views of responsible officials and planned corrective actions: Management is aware of its responsibility to establish and maintain effective internal control over external financial reporting and will ensure that all significant estimates and balance sheet accounts are formally reviewed for accuracy.</p>