

**Chambers County Public Hospital District No.1
d/b/a Bayside Community Hospital and
Chambers Community Health Center, Inc. for
Bayside and West Chambers Medical Clinics
Anahuac, Texas**

**As of and For the Years Ended
September 30, 2019 and 2018**

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Management
Chambers County Public Hospital District No. 1
d/b/a Bayside Community Hospital and Chambers Community
Health Center, Inc. for Bayside and West Chambers Medical Clinics
Anahuac, Texas

We have audited the accompanying statements of net position of Chambers County Public Hospital District No. 1 d/b/a Bayside Community Hospital and Chambers Community Health Center, Inc. for Bayside and West Chambers Medical Clinics (the "District"), as of September 30, 2019 and 2018, and the related statement of revenues, expenses, and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and defined benefit pension plan information on pages A-1 through A-5 and pages 32 through 34 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

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

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and is also not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated April 24, 2020, 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 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 internal control over financial reporting or on compliance. That report is an integral part of any audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Durbin & Company, L.L.P.

Durbin & Company, L. L. P.
Lubbock, Texas
April 24, 2020

**Chambers County Public Hospital District No.1
d/b/a Bayside Community Hospital and
Chambers Community Health Center, Inc. for
Bayside and West Chambers Medical Clinics
Anahuac, Texas**

Management's Discussion and Analysis

**As of and For the Years Ended
September 30, 2019 and 2018**

**CHAMBERS COUNTY PUBLIC HOSPITAL DISTRICT NO. 1 d/b/a
BAYSIDE COMMUNITY HOSPITAL AND CHAMBERS COMMUNITY HEALTH CENTER,
INC. FOR BAYSIDE AND WEST CHAMBERS MEDICAL CLINICS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2019 AND 2018

UNAUDITED

Our discussion and analysis of Chambers County Public Hospital District No. 1 d/b/a Bayside Community Hospital and Chambers Community Health Center, Inc. for Bayside and West Chambers Medical Clinics' (the "District") financial performance provides an overview of the District's financial activities for the fiscal years ended September 30, 2019 and 2018. Please read it in conjunction with the District's financial statements, which begin on page 1.

FINANCIAL HIGHLIGHTS

- The District's net position reflects a \$1,151,785 or 7.4% increase in 2019 and a \$611,105 or 4.1% increase in 2018.
- The District reported operating losses in 2019 and 2018 of \$(3,630,020) and \$(4,175,952), respectively. The operating loss in 2019 had an favorable decrease of \$545,932 over the operating loss reported in 2018.
- Net patient service revenue increased \$65,345 or 0.7%, in 2019 and decreased \$34,359 or 0.3%, in 2018.

USING THIS ANNUAL REPORT

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

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

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

**CHAMBERS COUNTY PUBLIC HOSPITAL DISTRICT NO. 1 d/b/a
 BAYSIDE COMMUNITY HOSPITAL AND CHAMBERS COMMUNITY HEALTH CENTER,
 INC. FOR BAYSIDE AND WEST CHAMBERS MEDICAL CLINICS
 MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)
 FISCAL YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

These two statements report the District’s net position and changes in it. You can think of the District’s net position—the difference between assets and liabilities—as one way to measure the District’s financial health, or net position. Over time, increases or decreases in the District’s net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District’s patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the District.

The Statement of Cash Flows

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

THE DISTRICT’S NET POSITION

The District’s net position is the difference between its assets and liabilities reported in the Statement of Net Position on page 2. The District’s net position increased by \$1,151,785 or 7.4% in 2019 and increased by \$611,105 or 4.1% in 2018, as you can see from **Table 1**.

Table 1: Assets, Liabilities, and Net Position

| | 2019 | 2018 | 2017 |
|--|---------------------|---------------------|---------------------|
| Assets and Deferred Outflows | | | |
| Current Assets | \$12,240,307 | \$12,231,536 | \$ 8,653,751 |
| Capital Assets (net) | 7,264,753 | 7,636,677 | 8,089,128 |
| Deferred Outflows of Resources | 1,466,703 | 835,303 | 888,130 |
| Other Non-Current Assets | - | 16,366 | - |
| Total Assets and Deferred Outflows | <u>\$20,971,763</u> | <u>\$20,719,882</u> | <u>\$17,631,009</u> |
| Liabilities, Deferred Inflows and Net Position: | | | |
| Long-Term Debt Outstanding | \$ - | \$ - | \$ 4,454 |
| Other Current and Non-Current | 3,973,148 | 4,772,643 | 2,681,610 |
| Total Liabilities | <u>3,973,148</u> | <u>4,772,643</u> | <u>2,686,064</u> |
| Deferred Inflows of Resources | 297,046 | 397,455 | 6,266 |
| Total Net Position | <u>16,701,569</u> | <u>15,549,784</u> | <u>14,938,679</u> |
| Total Liabilities, Deferred Inflows and Net Position | <u>\$20,971,763</u> | <u>\$20,719,882</u> | <u>\$17,631,009</u> |

**CHAMBERS COUNTY PUBLIC HOSPITAL DISTRICT NO. 1 d/b/a
 BAYSIDE COMMUNITY HOSPITAL AND CHAMBERS COMMUNITY HEALTH CENTER,
 INC. FOR BAYSIDE AND WEST CHAMBERS MEDICAL CLINICS
 MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
 FISCAL YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

OPERATING RESULTS AND CHANGES IN THE DISTRICT'S NET POSITION

In 2019 and 2018, the District's net position increased by \$1,151,785 and \$611,105, respectively. This change is made up of different components, as you can see from **Table 2**.

Table 2: Operating Results and Changes in Net Position

| | 2019 | 2018 | 2017 |
|--|----------------------------|----------------------------|----------------------------|
| Operating Revenues: | | | |
| Net Patient Service Revenue | \$ 9,923,620 | \$ 9,858,275 | \$ 9,892,634 |
| Nursing Home Revenue | 13,571,133 | 10,536,137 | 7,630,827 |
| Other Operating Revenue | 153,837 | 223,308 | 239,860 |
| Total Operating Revenue | <u>23,648,590</u> | <u>20,617,720</u> | <u>17,763,321</u> |
| Operating Expenses: | | | |
| Salaries and Benefits | 8,282,603 | 8,654,273 | 8,110,587 |
| Other Operating Expenses | 5,050,022 | 5,003,919 | 5,515,715 |
| Nursing Home Expense | 13,301,410 | 10,367,928 | 7,185,119 |
| Depreciation / Amortization | 644,575 | 767,552 | 915,869 |
| Total Operating Expenses | <u>27,278,610</u> | <u>24,793,672</u> | <u>21,727,290</u> |
| Operating Loss | (3,630,020) | (4,175,952) | (3,963,969) |
| Nonoperating Revenues and Expenses: | | | |
| Property Tax Revenue | 2,939,931 | 2,904,647 | 2,836,168 |
| Noncapital Grants / Contributions | 1,791,779 | 1,846,661 | 1,687,712 |
| Interest Expense | - | (1,649) | (810) |
| Other | 37,176 | 26,702 | 193,318 |
| Total Nonoperating Revenues (Expenses) | <u>4,768,886</u> | <u>4,776,361</u> | <u>4,716,388</u> |
| Excess (Deficiency) of Revenues over Expenses Before Capital Grants and Contributions | 1,138,866 | 600,409 | 752,419 |
| Capital Grants and Contributions | <u>12,919</u> | <u>10,696</u> | <u>4,029</u> |
| Increase (Decrease) in Net Position | 1,151,785 | 611,105 | 756,448 |
| Net Position, Beginning of Year | <u>15,549,784</u> | <u>14,938,679</u> | <u>14,182,231</u> |
| Net Position, End of Year | <u><u>\$16,701,569</u></u> | <u><u>\$15,549,784</u></u> | <u><u>\$14,938,679</u></u> |

**CHAMBERS COUNTY PUBLIC HOSPITAL DISTRICT NO. 1 d/b/a
BAYSIDE COMMUNITY HOSPITAL AND CHAMBERS COMMUNITY HEALTH CENTER,
INC. FOR BAYSIDE AND WEST CHAMBERS MEDICAL CLINICS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FISCAL YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

Operating Losses

The primary component of the overall change in the District's net position is its operating loss - generally, the difference between net patient service revenues and the expenses incurred to perform those services. In 2019, the District reported an operating loss of \$(3,630,020), which is a favorable decrease of \$545,932 from the operating loss reported in 2018 of \$(4,175,952). The operating loss reported in 2018 was an unfavorable increase of \$211,983 from the operating loss reported in 2017 of \$(3,963,969).

The primary components of the decreased operating loss in 2019 are:

- Net patient revenue increased by \$260,316 or 2.6% compared to 2018.
- Salaries and benefits decreased by \$(371,670) or (4.3)% compared to 2018.
- Nursing Home revenue increased by \$3,304,996 or 28.8% compared to 2018.

The primary components of the increased operating loss in 2018 are:

- Net patient revenue decreased by \$(34,359) or (0.3)% compared to 2017.
- Salaries and benefits increased by \$543,686 or 6.7% compared to 2017.
- Nursing Home expenses increased by \$3,182,809 or 44.3% compared to 2017.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of property taxes levied by the District, indigent care support revenue, investment income, and interest expense.

Ad valorem tax revenues increased by \$35,284 or 1.2%, in 2019 compared to a \$68,479 or 2.4% increase in 2018. Revenues increased due to an increase in the property tax values within Chambers County in 2019.

Grants and Contributions

The District received capital grants and contributions of \$12,919 and \$10,696 in 2019 and 2018, respectively. Noncapital grants and contributions received in 2019 and 2018 were \$1,791,779 and \$1,846,661, respectively.

**CHAMBERS COUNTY PUBLIC HOSPITAL DISTRICT NO. 1 d/b/a
BAYSIDE COMMUNITY HOSPITAL AND CHAMBERS COMMUNITY HEALTH CENTER,
INC. FOR BAYSIDE AND WEST CHAMBERS MEDICAL CLINICS
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
FISCAL YEARS ENDED SEPTEMBER 30, 2019 AND 2018**

THE DISTRICT'S CASH FLOWS

The cash flow statement reports on the cash provided by, or used in operating, investing, and financing activities. Net cash used in operations for 2019 was \$(3,021,852). Cash provided from investing activities was \$37,176. Capital and noncapital financing activities provided a net cash flow of \$4,349,298. The net increase in cash and cash equivalents for 2019 was \$1,364,662.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2019, the District had \$7,264,753 invested in capital assets, net of accumulated depreciation, as detailed in Note 9 of the financial statements, compared to \$7,636,677 in 2018. The District purchased capital assets in the amount of \$272,651 and \$315,102 in 2019 and 2018, respectively. Depreciation expense totaled \$644,575 and \$767,552 in 2019 and 2018, respectively.

Debt

At September 30, 2019 and 2018, the District had \$-0-, in long-term debt.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Chief Financial Officer at Bayside Community Hospital, 200 Hospital Drive, Anahuac, Texas 77514.

**Chambers County Public Hospital District No.1
d/b/a Bayside Community Hospital and
Chambers Community Health Center, Inc. for
Bayside and West Chambers Medical Clinics
Anahuac, Texas**

Financial Statements

**As of and For the Years Ended
September 30, 2019 and 2018**

**CHAMBERS COUNTY PUBLIC HOSPITAL DISTRICT NO. 1 d/b/a
BAYSIDE COMMUNITY HOSPITAL AND CHAMBERS COMMUNITY HEALTH CENTER,
INC. FOR BAYSIDE AND WEST CHAMBERS MEDICAL CLINICS**

STATEMENTS OF NET POSITION

SEPTEMBER 30, 2019 AND 2018

**ASSETS AND DEFERRED OUTFLOWS OF
RESOURCES:**

| | 2019 | 2018 |
|---|-------------------|-------------------|
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 7,966,100 | \$ 6,601,478 |
| Patient Accounts Receivable, Net of Allowance | 912,860 | 1,033,119 |
| Accounts Receivable - Nursing Home | 1,484,342 | 2,889,143 |
| Estimated Third-Party Payor Settlements | 181,197 | 389,338 |
| Other Receivables | 420,484 | 186,089 |
| Due from Nursing Home QIPP/MPAP Programs | 150,859 | 146,555 |
| Inventory of Supplies | 229,915 | 221,434 |
| Prepaid and Other Current Assets | 758,291 | 610,811 |
| Property Taxes Receivable | 136,259 | 153,569 |
| Total Current Assets | 12,240,307 | 12,231,536 |
| CAPITAL ASSETS, | | |
| Land | 522,535 | 479,935 |
| Depreciable Capital Assets, Net | 6,742,218 | 7,156,742 |
| Net of Accumulated Depreciation | 7,264,753 | 7,636,677 |
| NET PENSION ASSET | - | 16,366 |
| DEFERRED OUTFLOWS OF RESOURCES | | |
| Difference Between Projected and Actual Earnings | 895,756 | 317,174 |
| Difference Between Expected and Actual Experience | 252,337 | 150,091 |
| Changes in Assumptions | 79,668 | 105,709 |
| Contributions Subsequent to the Measurement Date | 238,942 | 262,329 |
| Total Deferred Outflows of Resources | 1,466,703 | 835,303 |
| Total Assets and Deferred Outflows | \$ 20,971,763 | \$ 20,719,882 |

The accompanying notes are an integral part of these financial statements

**CHAMBERS COUNTY PUBLIC HOSPITAL DISTRICT NO. 1 d/b/a
BAYSIDE COMMUNITY HOSPITAL AND CHAMBERS COMMUNITY HEALTH CENTER,
INC. FOR BAYSIDE AND WEST CHAMBERS MEDICAL CLINICS**

STATEMENTS OF NET POSITION

SEPTEMBER 30, 2019 AND 2018

LIABILITIES, DEFERRED INFLOWS OF RESOURCES

AND NET POSITION:

| | 2019 | 2018 |
|---|---------------|---------------|
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 243,856 | \$ 653,578 |
| Accounts Payable - Nursing Home | 1,626,821 | 3,028,812 |
| Accrued Payroll, Benefits, and Related Liabilities | 909,723 | 837,805 |
| Self Funded Health Insurance | 50,866 | 87,035 |
| Estimated Third-Party Payor Settlements | 34,760 | - |
| Other Accrued Liabilities | 94,931 | 165,413 |
| Total Current Liabilities | 2,960,957 | 4,772,643 |
| NET PENSION LIABILITY | 1,012,191 | - |
| DEFERRED INFLOWS OF RESOURCES | | |
| Difference Between Projected and Actual Earnings | 294,958 | 393,278 |
| Difference Between Expected and Actual Experience | 2,088 | 4,177 |
| Total Deferred Inflows of Resources | 297,046 | 397,455 |
| Total Liabilities and Deferred Inflows | 4,270,194 | 5,170,098 |
| NET POSITION | | |
| Net Investment in Capital Assets | 7,264,753 | 7,636,677 |
| Unrestricted | 9,436,816 | 7,913,107 |
| Total Net Position | 16,701,569 | 15,549,784 |
| Total Liabilities, Deferred Inflows and Net Position | \$ 20,971,763 | \$ 20,719,882 |

The accompanying notes are an integral part of these financial statements

**CHAMBERS COUNTY PUBLIC HOSPITAL DISTRICT NO. 1 d/b/a
BAYSIDE COMMUNITY HOSPITAL AND CHAMBERS COMMUNITY HEALTH CENTER,
INC. FOR BAYSIDE AND WEST CHAMBERS MEDICAL CLINICS**

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

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

| | 2019 | 2018 |
|---|---------------|---------------|
| OPERATING REVENUES: | | |
| Net Patient Service Revenue | \$ 9,923,620 | \$ 9,858,275 |
| Nursing Home Revenue | 13,571,133 | 10,536,137 |
| Other Operating Revenue | 153,837 | 223,308 |
| Total Operating Revenues | 23,648,590 | 20,617,720 |
| OPERATING EXPENSES: | | |
| Salaries | 6,376,071 | 6,719,694 |
| Employee Benefits | 1,906,532 | 1,934,579 |
| Professional Fees and Purchased Services | 2,901,553 | 2,939,485 |
| Supplies | 1,005,413 | 860,182 |
| Other Operating | 1,143,056 | 1,204,252 |
| Nursing Home Expense | 13,301,410 | 10,367,928 |
| Depreciation and Amortization | 644,575 | 767,552 |
| Total Operating Expenses | 27,278,610 | 24,793,672 |
| Operating Loss | (3,630,020) | (4,175,952) |
| NONOPERATING REVENUES (EXPENSES): | | |
| Property Tax Revenue | 2,939,931 | 2,904,647 |
| Noncapital Grants and Contributions | 1,791,779 | 1,846,661 |
| Investment Income | 37,176 | 26,702 |
| Interest Expense | - | (1,649) |
| Total Nonoperating Revenues (Expenses) | 4,768,886 | 4,776,361 |
| Excess of Revenues Over Expenses Before Capital Grants and Contributions | 1,138,866 | 600,409 |
| Capital Grants and Contributions | 12,919 | 10,696 |
| Increase in Net Position | 1,151,785 | 611,105 |
| Net Position, Beginning of Year | 15,549,784 | 14,938,679 |
| Net Position, End of Year | \$ 16,701,569 | \$ 15,549,784 |

The accompanying notes are an integral part of these financial statements

**CHAMBERS COUNTY PUBLIC HOSPITAL DISTRICT NO. 1 d/b/a
BAYSIDE COMMUNITY HOSPITAL AND CHAMBERS COMMUNITY HEALTH CENTER,
INC. FOR BAYSIDE AND WEST CHAMBERS MEDICAL CLINICS**

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

| | 2019 | 2018 |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Receipts from and on Behalf of Patients | \$ 25,044,431 | \$ 17,982,501 |
| Other Receipts and Payments, net | (84,862) | 223,284 |
| Payments to Suppliers and Contractors | (19,259,523) | (13,014,261) |
| Payments to Employees | <u>(8,861,888)</u> | <u>(8,576,548)</u> |
| Net Cash Used by Operating Activities | (3,161,842) | (3,385,024) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Investment Earnings | <u>37,176</u> | <u>26,702</u> |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Capital Grants and Contributions | 12,919 | 10,696 |
| Principal Payments on Long-Term Debt and Notes Payable | - | (4,454) |
| Interest Payments on Long-Term Debt and Notes Payable | - | (1,649) |
| Purchase of Capital Assets | <u>(272,651)</u> | <u>(315,101)</u> |
| Net Cash Used by Capital and Related Financing Activities | (259,732) | (310,508) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Property Taxes | 2,957,241 | 2,904,647 |
| Noncapital Grants and Contributions | <u>1,791,779</u> | <u>1,846,661</u> |
| Net Cash Provided by Noncapital Financing Activities | <u>4,749,020</u> | <u>4,751,308</u> |
| | | |
| Net Increase (Decrease) in Cash and Cash Equivalents | 1,364,622 | 1,082,478 |
| | | |
| Cash and Cash Equivalents, Beginning of Year | <u>6,601,478</u> | <u>5,519,000</u> |
| | | |
| Cash and Cash Equivalents, End of Year | <u>\$ 7,966,100</u> | <u>\$ 6,601,478</u> |

The accompanying notes are an integral part of these financial statements

**CHAMBERS COUNTY PUBLIC HOSPITAL DISTRICT NO. 1 d/b/a
BAYSIDE COMMUNITY HOSPITAL AND CHAMBERS COMMUNITY HEALTH CENTER,
INC. FOR BAYSIDE AND WEST CHAMBERS MEDICAL CLINICS**

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

| | 2019 | 2018 |
|--|----------------|----------------|
| RECONCILIATION OF CASH AND EQUIVALENTS TO STATEMENTS OF NET POSITION: | | |
| Cash and Equivalents Presented Under the Following Titles: | | |
| Cash and Cash Equivalents | \$ 7,966,100 | \$ 6,601,478 |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES: | | |
| Operating Loss | \$ (3,630,020) | \$ (4,175,952) |
| Adjustments to Reconcile Operating Loss to Net | | |
| Cash Flows Used by Operating Activities: | | |
| Depreciation and Amortization | 644,575 | 767,552 |
| Provision for Bad Debts | 1,098,213 | 2,052,619 |
| (Increase) Decrease in: | | |
| Accounts Receivable | (977,954) | (2,001,149) |
| Accounts Receivable - Nursing Home | 1,404,801 | (2,258,619) |
| Prepaid Expenses and Other Current Assets | (394,660) | (207,528) |
| Estimated Third-Party Payor Settlements | 242,901 | (80,630) |
| Deferred Outflows of Resources and Pension Asset | 296,748 | 114,553 |
| Increase (Decrease) in: | | |
| Accounts Payable | (409,722) | 357,026 |
| Accounts Payable - Nursing Home | (1,401,991) | 1,922,191 |
| Accrued Salaries and Benefits Payable | 71,918 | 61,264 |
| Other Accrued Liabilities | (106,651) | 63,649 |
| Net Cash Used by Operating Activities | \$ (3,161,842) | \$ (3,385,024) |

The accompanying notes are an integral part of these financial statements

**CHAMBERS COUNTY PUBLIC HOSPITAL DISTRICT NO. 1 d/b/a
BAYSIDE COMMUNITY HOSPITAL AND CHAMBERS COMMUNITY HEALTH CENTER,
INC. FOR BAYSIDE AND WEST CHAMBERS MEDICAL CLINICS
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2019 AND 2018**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Chambers County Public Hospital District No. 1 d/b/a Bayside Community Hospital and Chambers Community Health Center, Inc. for Bayside and West Chambers Medical Clinics (the “District”) is located in Anahuac, Texas. Chambers County Public Hospital District No. 1 d/b/a Bayside Community Hospital (the “Hospital”) is a critical access hospital (CAH) and Chambers County Public Hospital District No. 1 and Chambers Community Health Center, Inc. for Bayside and West Chambers Medical Clinics are Federally Qualified Health Centers (the “FQHC”). The District primarily earns revenues by providing inpatient, outpatient, and emergency care services to patients in the Chambers County area. The District earns revenues through two primary sources. Most revenues are earned through the District’s operation of the Hospital that provides inpatient and outpatient acute-care services to residents of Chambers County and surrounding areas. The FQHC earns revenue by providing primary and preventative health care to indigent and low income patients in the same geographic area and also receives grant funding from the U.S. Department of Health and Human Services (HHS) in support of its commitment to provide services to a higher percentage of indigent patients.

These financial statements present the District and its component unit, an entity for which the District is considered to be financially accountable.

The determination of financial accountability includes consideration of a number of criteria, including: (1) the District’s ability to approve or modify another entity’s budget; (2) approve or modify another entity’s tax levy, rates, or charges; and (3) the entity’s fiscal dependency on the District.

Chambers Community Health Center, Inc. (CCHC) is included in the District’s financial statements as a component unit. CCHC is legally a separate not-for-profit corporation. It is organized exclusively to provide the required governance and oversight as stipulated by program guidelines for “Public Entity” models of the FQHC’s operations for the delivery of primary and preventative health care services to the underserved populations in the same geographic area. CCHC has a separate Board of Directors. The District and CCHC, through a co-applicant agreement, collaboratively operate the Clinics.

Data of CCHC is combined with data of the District for financial reporting purposes using the blended method. Transactions between the District and CCHC are eliminated in the combination.

Enterprise Fund Accounting - The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. The District has elected to apply the provisions based on Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement*. The District has also elected to apply the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Newly Adopted Accounting Pronouncements

GASB Statement No. 88 – In April 2018, the Governmental Accounting Standards Board (“GASB”) issued GASB Statement No. 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Statement is effective for reporting periods beginning after June 15, 2018. The implementation of this statement had no effect on the change in net position.

Pending Adoption of Recent Accounting Pronouncements:

Accounting Standards Update (ASU) No. 2014-09 - In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 was implemented by FASB to whether an entity should recognize revenue. An entity should recognize revenue to depict the transfers of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018, with early implementation permitted. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

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

GASB Statement No. 89 – In June 2018, the Governmental Accounting Standards Board (“GASB”) issued GASB Statement No. 89 – *Accounting for Interest Cost Incurred Before the end of a Construction Period*. The objective of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The Statement is effective for reporting periods beginning after December 15, 2019. Management is currently evaluating the effect this statement will have on financial statements and related disclosures.

GASB Statement No. 90 – In August 2018, the Governmental Accounting Standards Board (“GASB”) issued GASB Statement No. 90 – *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The Statement is effective for reporting periods beginning after December 15, 2018. Management is currently evaluating the effect this statement will have on financial statements and related disclosures.

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GASB Statement No. 91 – Governmental Accounting Standards Board Statement No. 91, *Conduit Debt Obligations*. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for periods beginning after December 15, 2020.

GASB Statement No. 92 – In January 2020, the Governmental Accounting Standards Board (“GASB”) issued GASB Statement No. 92 – Omnibus 2020. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of GASB Statement No. 87, Leases to be effective for fiscal years beginning after December 15, 2019 and is effective for all reporting periods thereafter;
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB);
- The applicability of GASB Statements No. 73, Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits;
- The applicability of certain requirements of GASB Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements;
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition;
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers;
- Reference to nonrecurring fair value measurements of assets and liabilities in authoritative literature;
- Terminology used to refer to derivative instruments.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - The District considers highly liquid investments with an original maturity of three months or less to be cash equivalents.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments – Investments are in TexStar, a public funds investment pool, and are carried at amortized cost.

Assets Whose Use is Limited – Assets whose use is limited include assets held by trustees under indenture agreements and designated assets set aside by the board of directors for future capital improvements, over which the board retains control and may at its discretion subsequently use for other purposes. Internally designated assets whose use is limited are classified as current assets because they are readily available to pay current liabilities, if needed.

Patient Accounts Receivable - The allowance for estimated uncollectible patient accounts receivable is maintained at a level which, in management's judgment, is adequate to absorb patient account balance write-offs inherent in the billing process. The amount of the allowance is based on management's evaluation of the collectability of patient accounts receivable, including the nature of the accounts, credit concentrations, trends in historical write-off experience, specific impaired accounts, and economic conditions. Allowances for uncollectibles and contractals are generally determined by applying historical percentages to financial classes within accounts receivable. The allowances are increased by a provision for bad debt expenses and contractual adjustments, and reduced by write-offs, net of recoveries.

Inventory of Supplies – Inventory is stated at historical cost on the First-In, First-Out (FIFO) method.

Capital Assets – Capital assets consist of property and equipment acquisitions and are recorded at cost. The District provides for depreciation of capital assets by the straight-line method and at rates promulgated by the American Hospital Association, which are designed to amortize the cost of such equipment over its useful life. Equipment under capital lease obligations is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment life. Such amortization is included in depreciation and amortization in the financial statements. Except for capital assets acquired through gifts, contributions, or capital grants, interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The District capitalizes acquisitions over \$2,000 with a useful life listed below.

Gifts of long-lived assets (if any) such as land, building, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor restrictions about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The following are a range of useful lives used by asset class:

| | |
|---|---------------|
| Land Improvements | 5 to 15 years |
| Buildings and Improvements (Components) | 8 to 40 years |
| Equipment | 5 to 20 years |

Net Position – Net position of the District are classified in three components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted net position is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the District. Unrestricted net position is remaining net position that does not meet the definition of net investment in capital assets or restricted.

Operating Revenues and Expenses – The statement of revenues, expenses, and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the District’s principal activity. Non-exchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Charity Care - The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Management’s policy for the provision of charity includes an application process based on residency and the provisions of Texas Health and Safety Code, Chapter 61. The District does not pursue collection of amounts determined to qualify as charity care. Charity care is excluded from net patient revenue.

Grants and Contributions – From time to time, the District receives grants from the Federal government and state, as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Deferred Outflows/Inflows of Resources – Transactions not meeting the definition of an asset or liability that result in the consumption or acquisition of net position in one period that are applicable to future periods are reported as deferred outflows of resources and deferred inflows of resources, respectively.

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NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Defined Benefit Pension Plan – For purposes of measuring the net pension asset, deferred outflows of resources, deferred inflows of resources, and pension income/expense related to the defined benefit pension plan, information about the fiduciary net position of the Texas County and District Retirement System (“TCDRS”) defined benefit pension plan and additions to/deductions from the TCERS’s fiduciary net position have been determined on the same basis as they are reported by TCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Federal Income Taxes - The District is a political subdivision under the laws of the State of Texas, and therefore, is exempt from federal and state income taxes pursuant to Section 115 of the Internal Revenue Code and a similar provision of state law.

Chambers Community Health Center, Inc. is a not-for-profit corporation and is qualified as a tax-exempt organization; therefore, no expense has been provided for income taxes in the accompanying financial statements.

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; natural disaster; and employee health, dental and accidental benefits. Commercial insurance coverage is purchased for claims arising from such matters.

Effective September 1, 2013, the District has adopted a partially self-funded insurance plan for employee health. The District is self-insured for a portion of its exposure to risk of loss from employee health claims. An annual estimated provision is accrued for the self-insured portion of employee health claims and includes an estimate of the ultimate cost for both claims incurred but not yet reported.

Reclassifications – Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to presentation in the current year financial statements. These reclassifications did not affect the financial position or changes in net position as previously reported.

NOTE 2 - NET PATIENT SERVICE REVENUE

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

Medicare and Medicaid – The District is a Critical Access Hospital. Thus, inpatient acute care services, certain inpatient non-acute care services, and outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits of thereof by the Medicare fiscal intermediary.

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NOTE 2 - NET PATIENT SERVICE REVENUE (CONTINUED)

Other - The District has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

The Clinics have been recognized as an FQHC as of March 12, 2008, for both Medicare and Medicaid reimbursement purposes. Payment arrangements for the Clinics include:

Medicare – FQHC services are reimbursed based on the Clinic’s average cost per visit, subject to a per visit cost limitation.

Medicaid – FQHC services are reimbursed using a prospectively determined per visit rate for each patient encounter.

Estimated Third-Party Payor Settlements - Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Anticipated final settlement amounts from current and prior years’ cost reports are recorded in the financial statements as they are determined by the District. Net estimated third-party payor settlements recorded in current assets and current liabilities at September 30, 2019 and 2018 are \$146,437 and \$389,338, respectively.

Net patient service revenue is comprised as follows:

| | <u>2019</u> | <u>2018</u> |
|--|---------------------|---------------------|
| Routine Patient Services | \$ 245,800 | \$ 247,000 |
| Ancillary Patient Services: | | |
| Inpatient | 860,436 | 797,719 |
| Outpatient | <u>27,250,808</u> | <u>27,643,665</u> |
| Gross Patient Service Revenue | 28,357,044 | 28,688,384 |
| Charity | (3,377,643) | (2,148,222) |
| Third-Party Contractual Adjustments | (14,773,077) | (14,800,090) |
| Provision for Bad Debts | (1,098,213) | (2,052,619) |
| Medicaid Supplemental Payments and Other Credits | <u>815,509</u> | <u>170,822</u> |
| Net Patient Service Revenue | <u>\$ 9,923,620</u> | <u>\$ 9,858,275</u> |

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NOTE 2 - NET PATIENT SERVICE REVENUE (CONTINUED)

Net patient service revenue for the Nursing Home is comprised as follows:

| | <u>2019</u> | <u>2018</u> |
|------------------------------------|----------------------|----------------------|
| Hospice Revenue | \$ 410,757 | \$ 318,602 |
| Insurance Revenue | 571,221 | 498,931 |
| Medicaid Revenue | 8,487,464 | 5,842,264 |
| Medicare Revenue | 2,863,416 | 3,459,149 |
| Self-Pay Revenue | 1,238,275 | 417,191 |
| Total Nursing Home Patient Revenue | <u>\$ 13,571,133</u> | <u>\$ 10,536,137</u> |

Charity Care – The value of charity care provided by the District based upon its established rates was \$3,377,643 in 2019 and \$2,148,222 in 2018. ASU 2010-23 requires charity care to be disclosed on a cost basis. The District utilizes the cost to charge ratios, as calculated based on its most recent cost reports, to determine the total cost. The District’s cost of providing charity care was \$1,526,522 and \$995,711 for the years ended September 30, 2019 and 2018, respectively.

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

At September 30, 2019 and 2018, the carrying amounts and bank balances of the District's deposits with financial institutions are categorized as follows:

| | <u>2019</u> | <u>2018</u> |
|---|---------------------|---------------------|
| Amount Insured by the FDIC | \$ 286,962 | \$ 363,977 |
| Amount Collateralized with Securities Held by the Pledging Financial Institution's Trust Department in the District's Name | <u>6,986,265</u> | <u>5,408,268</u> |
| Total Bank Balance | <u>\$ 7,273,227</u> | <u>\$ 5,772,245</u> |
| Carrying Value | <u>\$ 6,862,909</u> | <u>\$ 5,523,449</u> |

NOTE 4 – INVESTMENTS

The District may legally invest in public fund investment pools and in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and the State of Texas. The District’s investment in the TexStar public fund investment pool is not classified by custodial risk category as it is not evidenced by securities that exist in physical or book entry form. At September 30, 2019 and 2018, \$1,103,191 and \$1,078,029, respectively, of the District’s investment consisted of investments in TexStar.

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NOTE 4 – INVESTMENTS (CONTINUED)

TexStar is a local government investment pool organized in conformity with the Interlocal Cooperation Act, Chapter 791, of the Texas Government Code and the Public Funds Investment Act (collectively, “Acts”), Chapter 2256, of the Texas Government Code. These two Acts provide for the creation of public funds investment pools (including TexStar) and authorize eligible governmental entities to invest their public funds and funds under their control through the investment pools. TexStar uses amortized cost, which approximates fair value, to report net position and to compute share prices.

The District’s investments may be exposed to the types of risks as follows:

Interest Rate Risk – Interest rate risk is the risk that fair values of investments will change based on changes in market interest rates. The TexStar funds are considered an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The District’s investments in TexStar are guaranteed as to principal by the U.S. Treasury and the State of Texas, and is rated “AAAm” by Standard & Poor’s.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. All of the investments held at September 30, 2019 and 2018, are held in the District’s name.

Concentration of Credit Risk – The District places no limit on the amount that may be invested in any one issuer.

Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of investments will occur in the near-term and that such change could materially affect the amounts reported in the accompanying statements of net position.

NOTE 5 – 1115 DEMONSTRATION WAIVER PROGRAM

Uncompensated Care - The District participated in the Section 1115 Demonstration Waiver Program, a program designed to benefit rural community hospitals. This program is facilitated through the District providing an intergovernmental transfer whereby federal/state matching funds are provided to supplement the District for the shortfall in Medicaid funding. In connection with this program, the District provided intergovernmental transfers of \$592,985 and \$261,116, and received \$1,408,494 and \$605,557 for the years ended September 30, 2019 and 2018, respectively. The District recognized net revenue of \$815,509 and \$344,441 for the years ended September 30, 2019 and 2018, respectively. The respective revenue is included within net patient service revenue in the statements of revenues, expenses, and changes in net position.

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NOTE 5 – 1115 DEMONSTRATION WAIVER PROGRAM (CONTINUED)

Uniform Hospital Rate Increase Program – The District participated in the Uniform Hospital Rate Increase Program (“UHRIP”), a program designed to direct a Medicaid managed care organization (“MCO”) to provide a uniform percentage rate increase to hospitals in the MCO’s network in a participating service delivery area for the provision of inpatient services, outpatient services, or both. The State of Texas determines eligibility for rate increases by service delivery area and class of hospital. This program is facilitated through the District providing an intergovernmental transfer whereby federal matching funds are provided to supplement the District’s shortfall in Medicaid funding. In connection with this program, the District provided intergovernmental transfers of \$88,889 for the year ended September 30, 2019.

NOTE 6 – NURSING HOME OPERATIONS

The District has entered into operations transfer agreements (transfer agreement) with two separate nursing facilities which transferred the operations and certain operating assets of each facility. Pursuant to these agreements, the District has obtained an operating license from the Texas Department of Aging and Disability to operate the Nursing Homes. The District has also received an assignment or transfer of the Medicare and Medicaid Provider agreements. In addition to the transfer agreements, the District has also entered into lease agreements for the lease of real property and fixed assets and associated equipment that encompass the nursing home’s physical property.

During the years ended September 30, 2019 and 2018, the District recorded \$819,408 and \$667,788, respectively in rent expense related to these agreements.

This expense is recorded in Nursing Home expenses on the statements of revenues, expenses and changes in net position. Also, in connection with these transfer agreements, the District has recorded all patient revenue and the related accounts receivable.

Additionally, The District has executed a management and operations agreement with Healthcare Support Management, LLC, whereby Healthcare Support Management, LLC will manage and operate the Nursing Homes. The agreements shall be automatically renewed for successive two-year periods unless either party cancels in writing on or before 90 days prior to the end of the current term. Under these agreements, the District has paid a total base management fee, occupied bed fee, subordinated fees and quality incentive fees of \$11,326,310 and \$9,115,520, respectively, which is recorded in Nursing Home expenses on the statements of revenues, expenses, and changes in net position for the year ended September 30, 2019 and 2018. Transactions between the entities have been eliminated.

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NOTE 6 – NURSING HOME OPERATIONS (CONTINUED)

Quality Incentive Payment Program – During its 84th session, the Texas Legislature directed HHSC to transition MPAP to a new Quality Incentive Payment Program (QIPP) effective September 1, 2016, and HHSC will implement QIPP on September 1, 2017. QIPP will require participating facilities meeting certain qualifying criteria to submit projects to HHSC requesting the additional funding as supported in the individual projects. These projects are expected to improve quality and innovation in the provision of nursing facility services, including but not limited to payment incentives to establish culture change, small house models, staffing enhancements and outcome measures to improve the quality of care and life for nursing facility residents. A portion of the additional funding will be funded through intergovernmental transfer (IGT) payments from each participating provider. QIPP IGTs for a specific capitation rate period will be due to HHSC approximately six months prior to the beginning of the rate period.

During 2018, the District transferred \$266,659 to HHSC via an IGT for use as the state share of payments for the second period March 1, 2018 through August 31, 2018 and \$525,504 for the period September 1, 2018 through February 28, 2019. As of September 30, 2018, the District has a prepaid IGT balance of \$437,920 and a net benefit receivable of \$155,753 for the remaining payments to be received. Net revenue for the year ended September 30, 2018 was \$168,109.

During 2019, the District transferred \$525,504 to HHSC via an IGT for use as the state share of payments for the period March 1, 2019 through August 31, 2019 and \$604,603 for the period September 1, 2019 through February 28, 2020. As of September 30, 2019, the District has a prepaid IGT balance of \$503,835 and a net benefit receivable of \$248,565 for the remaining payments to be received. Net revenue for the year ended September 30, 2018 was \$269,723.

NOTE 7 - PATIENT ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at September 30:

| | <u>2019</u> | <u>2018</u> |
|---------------------------------------|-------------------|---------------------|
| Gross Accounts Receivable | \$ 3,195,466 | \$ 3,988,696 |
| Less: Allowance for Bad Debts | (1,495,049) | (2,287,685) |
| Allowance for Contractuals | <u>(787,557)</u> | <u>(667,892)</u> |
| Accounts Receivable, Net of Allowance | <u>\$ 912,860</u> | <u>\$ 1,033,119</u> |

Concentration of Credit Risk - The District grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2019 and 2018, is as follows:

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NOTE 7 - PATIENT ACCOUNTS RECEIVABLE (CONTINUED)

| | <u>2019</u> | <u>2018</u> |
|--------------------------|--------------------|--------------------|
| Medicare | 11% | 12% |
| Medicaid | 6% | 5% |
| Other Third-Party Payors | 32% | 30% |
| Patients | <u>51%</u> | <u>53%</u> |
| Total | <u><u>100%</u></u> | <u><u>100%</u></u> |

The mix of receivables from patients and third-party payors at September 30 is as follows for the Nursing Homes:

| | <u>2019</u> | <u>2018</u> |
|--------------------------|--------------------|--------------------|
| Medicare | 24% | 24% |
| Medicaid | 50% | 32% |
| Other Third-Party Payors | 15% | 16% |
| Patients | <u>11%</u> | <u>28%</u> |
| Total | <u><u>100%</u></u> | <u><u>100%</u></u> |

NOTE 8 - TAXES RECEIVABLE

Property taxes are levied on October 1 of each year in conformity with Subtitle E of the Texas Property Tax Code. Taxes are due on receipt of the tax statement and become delinquent as of February 1 of the following year of assessment. On January 1 of each year, a tax lien attaches to property to secure payment of all taxes, penalties, and interest ultimately imposed.

Tax revenue, net of fees, for 2019 and 2018 was \$2,939,931 and \$2,904,647, respectively. These funds were used to support operations. As of September 30, 2019 and 2018, the balance of property taxes receivable and its related allowance for uncollectible taxes are as follows:

| | <u>2019</u> | <u>2018</u> |
|-----------------------------------|--------------------------|--------------------------|
| Taxes Receivable | \$ 420,270 | \$ 421,553 |
| Less: Allowance for Uncollectible | <u>(284,011)</u> | <u>(267,984)</u> |
| Net Taxes Receivable | <u><u>\$ 136,259</u></u> | <u><u>\$ 153,569</u></u> |

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 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2019 AND 2018**

NOTE 9 – CAPITAL ASSETS

The following is a summary of capital assets at cost less accumulated depreciation:

| | Balance 9/30/2018 | Additions | Reclass/ Retirements | Balance 9/30/2019 |
|---------------------------------------|----------------------|---------------------|-------------------------|----------------------|
| Land | \$ 479,935 | \$ 42,600 | \$ - | \$ 522,535 |
| Buildings and Improvements | 8,476,402 | - | - | 8,476,402 |
| Equipment | 5,768,078 | 230,051 | (282,537) | 5,715,592 |
| Capital Leases | 89,457 | - | - | 89,457 |
| Totals at Historical Cost | 14,813,872 | 272,651 | (282,537) | 14,803,986 |
| Less Accumulated Depreciation for: | | | | |
| Buildings and Improvements | (2,133,471) | (256,394) | - | (2,389,865) |
| Equipment | (4,974,932) | (375,402) | 282,537 | (5,067,797) |
| Capital Leases | (68,792) | (12,779) | - | (81,571) |
| Total Accumulated Depreciation | (7,177,195) | (644,575) | 282,537 | (7,539,233) |
| Capital Assets, Net | <u>\$ 7,636,677</u> | <u>\$ (371,924)</u> | <u>\$ -</u> | <u>\$ 7,264,753</u> |

| | Balance 9/30/2017 | Additions | Reclass/ Retirements | Balance 9/30/2018 |
|---------------------------------------|----------------------|---------------------|-------------------------|----------------------|
| Land | \$ 327,927 | \$ 152,008 | \$ - | \$ 479,935 |
| Buildings and Improvements | 8,476,402 | - | - | 8,476,402 |
| Equipment | 5,604,984 | 163,094 | - | 5,768,078 |
| Capital Leases | 89,457 | - | - | 89,457 |
| Totals at Historical Cost | 14,498,770 | 315,102 | - | 14,813,872 |
| Less Accumulated Depreciation for: | | | | |
| Buildings and Improvements | (1,873,121) | (260,350) | - | (2,133,471) |
| Equipment | (4,480,509) | (494,423) | - | (4,974,932) |
| Capital Leases | (56,012) | (12,780) | - | (68,792) |
| Total Accumulated Depreciation | (6,409,642) | (767,553) | - | (7,177,195) |
| Capital Assets, Net | <u>\$ 8,089,128</u> | <u>\$ (452,451)</u> | <u>\$ -</u> | <u>\$ 7,636,677</u> |

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NOTE 10 – GRANT REVENUE

The District is the recipient of a Community Health Center (CHC) grant from the U.S. Department of Health of Human Services. The general purpose of the grant is to provide expanded health care service delivery for residents in the Chambers County and surrounding area through the Bayside and West Chambers Clinics (the “Clinics”). Terms of the grant generally provide for funding of the Clinic’s operations based on an approved budget. Grant revenue is recognized as qualifying expenditures are incurred over the grant period. During the years ended September 30, 2019 and 2018, the District received \$1,540,171 and \$1,560,704 respectively in CHC grant funds. The CHC grant project is through February 28, 2020, and should have additional grant revenue of \$1,614,045 during the 2020 fiscal year.

Subsequent to year end, the District was awarded \$730,115 through the Health Center Coronavirus Aid, Relief, and Economic Security (CARES) Act Funding. The also were awarded \$60,567 for Coronavirus Supplemental Funding for Health Centers.

The District received a Health Promotions Disease Prevention School Health Grant Program grant from the U.S. Department of Health and Human Services. This grant is passed through the Department of State Health Services. The purpose of this grant is to provide a comprehensive range of primary and preventive health services at a site on a school campus to meet the needs of children who have limited access to health care. During the years ended September 30, 2019 and 2018, the District received \$93,867 and \$104,309 in School Health Program funds. The end of the grant period is August 31, 2020.

During the years ended September 30, 2019 and 2018, the District received a Primary Health Care grant and an Expanded Primary Health Care grant from the Texas Department of State Health Services. The purpose of these grants is to provide prevention and early intervention of health problems. During the years ended September 30, 2019 and 2018, the District received \$113,953 and \$116,734, respectively, in grant funds. The end of the grant period is August 31, 2020.

NOTE 11 – MEDICAL MALPRACTICE CLAIMS

The District is a unit of government covered by the Texas Tort Claims Acts which, by statute, limits its liability to \$100,000 per person and \$300,000 for each single occurrence. These limits coincide with the malpractice insurance coverage maintained by the District, which is purchased under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the District’s claims experience, no such accrual has been made.

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NOTE 12 – EMPLOYEE BENEFITS

Plan Description

The District participates in the Texas County & District Retirement System (TCDRS), an agent multiple-employer defined benefit pension plan covering all full-time and part-time non-temporary employees, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership. The Plan is administered by a board of trustees appointed by TCDRS. Benefit provisions are contained in the plan document and were established and can be amended by action of the District’s governing body within the options available in the state statutes governing TCDRS. The plan does not issue a separate report that includes financial statements and required supplementary information for the plan. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The most recent CAFR for TCDRS can be found at the following link, www.tcdrs.org.

Benefits Provided

The Plan provides retirement, disability and survivor benefits to plan members and their beneficiaries. Benefit amounts are determined by the sum of the employee’s contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the District within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the commitment of the District to contribute to the plan. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by TCDRS.

Members can retire at ages 60 and above with 10 or more years, with 30 years regardless of age, or when the sum of their age and years of service equals 75 or more. A member is vested after 10 years but must leave their accumulated contributions in the plan to receive any employer-financed benefit. If a member withdraws their personal contributions in a lump sum, they are not entitled to any amounts contributed by the employer.

The following employees were covered by the benefit terms at December 31:

| | <u>2018</u> | <u>2017</u> |
|--|-------------------|-------------------|
| Inactive Employees or Beneficiaries Currently Receiving Benefits | 13 | 13 |
| Inactive Employees Entitled to but not Yet Receiving Benefits | 82 | 79 |
| Active Employees | <u>103</u> | <u>101</u> |
| Total | <u><u>198</u></u> | <u><u>193</u></u> |

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NOTE 12 – EMPLOYEE BENEFITS (CONTINUED)

Contributions

The District's governing board has the authority to establish and amend the contribution requirements of the District and active employees.

The District establishes rates based on the annually determined rate plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both the employee members and the employer based on the covered payroll of employee members. Plan members are required to contribute 5% of their annually covered salary. Under the TCDRS Act, rates are based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the plan year ended December 31, 2018, employees contributed \$303,269, or 5.0% of covered payroll, and the District contributed \$348,759, or 5.8% of covered payroll, to the Plan. For the plan year ended December 31, 2017, employees contributed \$279,422, or 5.0% of covered payroll, and the District contributed \$280,540, or 5.0% of covered payroll, to the Plan.

Net Pension Asset/Liability

At September 30, 2019 and 2018, The District's net pension asset/liability was measured as of December 31, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension asset was respectively determined by an actuarial valuation as of that date.

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NOTE 12 – EMPLOYEE BENEFITS (CONTINUED)

The total pension liability in the December 31, 2018 and 2017 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|---------------------------|--|
| Actuarial Cost Method | Entry Age |
| Amortization Method | Level Percentage of Payroll, Closed |
| Inflation | 2.75% |
| Salary Increases | Varies by age and service. 4.9% average over career including inflation. |
| Investment Rate of Return | 8.00% |

Mortality rates were based as follows:

| | |
|--|---|
| Depositing Members | 90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014. |
| Service Retirees, Beneficiaries and Non-depositing Members | 130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Monthly Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014. |
| Disabled Retirees | 130% of the RP-2014 Healthy Annuitant Mortality Table for males and 115% of the RP-2014 Healthy Annuitant Monthly Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014. |

All actuarial assumptions that determined the total pension liability as of December 31, 2018 were based on the results of an actuarial experience study for the period January 1, 2013 - December 31, 2016, Except where required to be different by GASB 68.

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NOTE 12 – EMPLOYEE BENEFITS (CONTINUED)

Net Pension Asset/Liability (Continued)

The long-term expected rate of return on pension investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net or pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Geometric Real Rate of Return (Expected minus Inflation) |
|-------------------------------------|----------------------|---|
| U.S. Equities | 10.50% | 5.40% |
| Private Equity | 18.00% | 8.40% |
| Global Equities | 2.50% | 5.70% |
| International Equities-Developed | 10.00% | 5.40% |
| International Equities-Emerging | 7.00% | 5.90% |
| Investment-Grade Bonds | 3.00% | 1.60% |
| Strategic Credit | 12.00% | 4.39% |
| Direct Lending | 11.00% | 7.95% |
| Distressed Debt | 2.00% | 7.20% |
| REIT Equities | 2.00% | 4.15% |
| Master Limited Partnerships (MLP's) | 3.00% | 5.35% |
| Private Real Estate Partnerships | 6.00% | 6.30% |
| Hedge Funds | 13.00% | 3.90% |
| | 100.00% | |

Discount Rate

The discount rate used to measure the total pension liability was 8.10% at December 31, 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that District contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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NOTE 12 – EMPLOYEE BENEFITS (CONTINUED)

Discount Rate (Continued)

The following table summarizes the changes in the net pension asset as of December 31, 2018, the valuation date:

| | Increase (Decrease) | | |
|---|----------------------------|---------------------------|------------------------|
| | Total Pension Liability | Fiduciary Net Position | Net Pension (Asset) |
| Changes in Net Pension Liability (Asset) | | | |
| Balances as of December 31, 2017 | \$ 9,151,013 | \$9,167,379 | \$ (16,366) |
| Changes for the Year: | | | |
| Service Cost | 573,292 | - | 573,292 |
| Interest on Total Pension Liability | 780,102 | - | 780,102 |
| Effect of Plan Changes | - | - | - |
| Effect of Economic/Demographic Gains or Losses | 168,622 | - | 168,622 |
| Effect of Assumptions Changes or Inputs | - | - | - |
| Refund of Contributions | (39,159) | (39,159) | - |
| Benefit Payments | (151,380) | (151,380) | - |
| Administrative Expenses | - | (7,607) | 7,607 |
| Member Contributions | - | 303,269 | (303,269) |
| Net Investment Income | - | (165,632) | 165,632 |
| Employer Contributions | - | 348,759 | (348,759) |
| Other | - | 14,670 | (14,670) |
| Balances as of December 31, 2018 | \$ 10,482,490 | \$9,470,299 | \$ 1,012,191 |

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NOTE 12 – EMPLOYEE BENEFITS (CONTINUED)

Discount Rate (Continued)

The following table summarizes the changes in the net pension asset as of December 31, 2017, the valuation date:

| Changes in Net Pension Liability (Asset) | Increase (Decrease) | | |
|--|-------------------------|------------------------|---------------------|
| | Total Pension Liability | Fiduciary Net Position | Net Pension (Asset) |
| Balances as of December 31, 2016 | \$ 8,005,770 | \$7,692,673 | \$ 313,097 |
| Changes for the Year: | | | |
| Service Cost | 556,383 | - | 556,383 |
| Interest on Total Pension Liability | 685,107 | - | 685,107 |
| Effect of Plan Changes | - | - | - |
| Effect of Economic/Demographic Gains or Losses | 33,217 | - | 33,217 |
| Effect of Assumptions Changes or Inputs | 82,753 | - | 82,753 |
| Refund of Contributions | (60,838) | (60,838) | - |
| Benefit Payments | (151,380) | (151,380) | - |
| Administrative Expenses | - | (6,097) | 6,097 |
| Member Contributions | - | 279,422 | (279,422) |
| Net Investment Income | - | 1,128,455 | (1,128,455) |
| Employer Contributions | - | 280,540 | (280,540) |
| Other | - | 4,603 | (4,603) |
| Balances as of December 31, 2017 | <u>\$ 9,151,012</u> | <u>\$9,167,378</u> | <u>\$ (16,366)</u> |

Sensitivity to the Net Pension Liability (Asset) to Changes in the Discount Rate – The following presents the net pension asset of the District, calculated using the discount rate of 8.10%, as well as what the District’s net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (7.10%) or 1-percentage-point higher (9.10%) than the current rate as of the valuation date December 31:

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NOTE 12 – EMPLOYEE BENEFITS (CONTINUED)

Discount Rate (Continued)

Pension Plan Fiduciary Net Position – Detailed information about the pension plan’s fiduciary net position is available in the separately issued TCDRS financial report.

| | 2018 | | |
|-------------------------------|---------------------|----------------------|-----------------------|
| | 1% | Current | 1% |
| | <u>Decrease</u> | <u>Discount Rate</u> | <u>Increase</u> |
| | 7.10% | 8.10% | 9.10% |
| Total Pension Liability | \$ 12,246,273 | \$ 10,482,490 | \$ 9,039,576 |
| Fiduciary Net Position | <u>9,470,299</u> | <u>9,470,299</u> | <u>9,470,299</u> |
| Net Pension (Asset)/Liability | <u>\$ 2,775,974</u> | <u>\$ 1,012,191</u> | <u>\$ (430,723)</u> |
| | 2017 | | |
| | 1% | Current | 1% |
| | <u>Decrease</u> | <u>Discount Rate</u> | <u>Increase</u> |
| | 7.10% | 8.10% | 9.10% |
| Total Pension Liability | \$ 10,694,806 | \$ 9,151,013 | \$ 7,890,695 |
| Fiduciary Net Position | <u>9,167,379</u> | <u>9,167,379</u> | <u>9,167,379</u> |
| Net Pension (Asset)/Liability | <u>\$ 1,527,427</u> | <u>\$ (16,366)</u> | <u>\$ (1,276,684)</u> |

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NOTE 12 – EMPLOYEE BENEFITS (CONTINUED)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended September 30, 2019 and 2018, the District recognized pension expense as follows:

| | <u>January 1, 2018 to December 31, 2018</u> | <u>January 1, 2017 to December 31, 2017</u> |
|---|---|---|
| Pension Expense/(Income) | | |
| Service Cost | \$ 573,292 | \$ 556,383 |
| Interest on Total Pension Liability | 780,102 | 685,107 |
| Administrative Expenses | 7,607 | 6,097 |
| Member Contributions | (303,269) | (279,422) |
| Expected Investment Return Net of Investment Expenses | (761,165) | (636,857) |
| Recognition of Deferred Inflows/Outflows of Resources | | |
| Recognition of Economic/Demographic Gains or Losses | 64,287 | 36,183 |
| Recognition of Assumption Changes or Inputs | 26,041 | 26,041 |
| Recognition of Investment Gains or Losses | 249,895 | 64,536 |
| Other | (14,670) | (4,603) |
| Pension Expenses/(Income) | <u>\$ 622,120</u> | <u>\$ 453,465</u> |

At September 30, 2019 and 2018, the District reported deferred outflows of resources and deferred inflows of resources related to the TCDRS defined benefit pension plan from the following sources:

| | <u>2018</u> | |
|--|--|---|
| | <u>Deferred Inflows of Resources</u> | <u>Deferred Outflows of Resources</u> |
| Difference Between Expected and Actual Experience | \$ 2,089 | \$ 252,337 |
| Change of Assumptions | - | 79,669 |
| Net Difference Between Projected and Actual Earnings | 294,958 | 895,756 |
| Contributions Made Subsequent to Measurement Date | N/A | 238,942 |
| | <u>2017</u> | |
| | <u>Deferred Inflows of Resources</u> | <u>Deferred Outflows of Resources</u> |
| Difference Between Expected and Actual Experience | \$ 4,177 | \$ 150,091 |
| Change of Assumptions | - | 105,709 |
| Net Difference Between Projected and Actual Earnings | 393,278 | 317,174 |
| Contributions Made Subsequent to Measurement Date | N/A | 262,329 |

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NOTE 12 – EMPLOYEE BENEFITS (CONTINUED)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Year Ended December 31:

| | |
|------|------------|
| 2019 | \$ 320,005 |
| 2020 | 191,133 |
| 2021 | 158,676 |
| 2022 | 232,795 |
| 2023 | 28,102 |

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Litigation – The District is, from time to time, subject to claims and suits for damages, including damages for personal injuries to patients and others, most of which are covered as to risk and amount. In the opinion of management, there were no known pending legal proceedings that could have a material effect on the District’s financial position or results of operations.

Leases – The District leases various equipment and facilities under operating leases expiring at various dates. Total rental expense, including operating leases, in 2019 and 2018 was \$7,300 and \$12,054, respectively.

Health Insurance Arrangements – Effective September 1, 2013 the District converted to a partially self-insured for employee health claims. Losses more than \$40,000 for each employee incurred in the years ended September 30, 2019 and 2018 are covered by excess insurance. Additionally, insurance covers aggregate expenses in excess of \$1,000,000 per year. An estimated liability of \$50,866 and \$87,035 has been recorded for claims that are unpaid at September 30, 2019 and 2018, as well as for those that are incurred but not reported. This estimate is based on an analysis of claims filed subsequent to that date in conjunction with the above noted excess insurance.

| | <u>2019</u> | <u>2018</u> |
|---|------------------|------------------|
| Balance, Beginning of Year | \$ 87,035 | \$ 107,035 |
| Current Year Claims Incurred and Changes in Estimates for Claims Incurred in Prior Years | 793,833 | 962,202 |
| Claims and Expenses Paid | <u>(830,002)</u> | <u>(982,202)</u> |
| Balance, End of Year | <u>\$ 50,866</u> | <u>\$ 87,035</u> |

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NOTE 14 – SUBSEQUENT EVENTS

The date to which events occurring after September 30, 2019, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosure is April 24, 2020, which is the date on which the financial statements were available to be issued.

In March 2020, the District purchased land in the amount of \$1,266,634 in the western part of Chambers County. The land was purchased with operating funds for possible future expansion.

In April 2020, the US Department of Health and Human Services provided \$237,483 to the District from funds appropriated in the Public Health and Social Services Emergency Fund for provider relieve (“Relief Fund”) under Division B of Public Law 116-127. By accepting the Relief Funds, the District must maintain compliance with the Secretary’s terms and conditions, including but not limited to, using the Relief Funds to prevent, prepare for, and respond to coronavirus, and shall reimburse the District only for health care related expenses or lost revenues that are attributable to coronavirus. The District’s commitment to full compliance with all terms and conditions is material to the Secretary’s decision to disburse these funds. Non-compliance with any terms and conditions is grounds for the Secretary to recoup some or all of the payment made from the Relief Fund.

Also in April 2020, the District was notified that it has been approved for a loan in the amount of \$149,847 which was provided under Division A, Title 1, Section 1102 Paycheck Protection Program (“PPP”) of the Coronavirus Aid, Relief, and Economic Security Act (“CAREs Act”). The provisions of the CAREs Act amend the Small Business Act (“SBA ACT”) to include a provision for the PPP. Beginning in April 2020, the PPP allows certain entities to apply for a loan to cover the cost of specific expenses incurred during the period February 15, 2020, through June 30, 2020 (“covered period”). The primary purpose of the loan is to provide small businesses the opportunity to maintain employment levels during the covered period. Under the provisions of the SBA Act, principal and interest payments are deferred for at least 6 months up to 1 year after disbursement. If the District submits sufficient documentation to the lender to support that the loan proceeds were used in accordance with the provisions of the SBA Act, the loan will be fully forgiven. If sufficient documentation is not provided, or the funds were not fully expended as required, the lender may determine that the loan, or a portion of it, will not be forgiven. If any portion of the loan is not forgiven, the loan will be payable over a period of two years at an interest rate of 1%.

Required Supplementary Information

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REQUIRED SUPPLEMENTARY INFORMATION

Schedule of Changes in the District's Net Pension Asset and Related Ratios

| | Year Ended December 31, | | | | |
|--|-------------------------|---------------------|---------------------|---------------------|---------------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Total Pension Liability | | | | | |
| Service Cost | \$ 573,292 | \$ 556,383 | \$ 543,565 | \$ 479,402 | \$ 458,529 |
| Interest on Total Pension Liability | 780,102 | 685,107 | 575,896 | 507,779 | 452,054 |
| Effect of Plan Changes | - | - | - | (127,610) | - |
| Effect of Assumption Changes or Inputs | - | 82,753 | - | 73,495 | - |
| Effect of Economic/Demographic (Gains) or Losses | 168,622 | 33,217 | 145,220 | 51,195 | (12,533) |
| Benefit Payments/Refunds of Contributions | (190,539) | (212,218) | (200,586) | (201,996) | (185,868) |
| Net Change in Total Pension Liability | 1,331,477 | 1,145,242 | 1,064,095 | 782,265 | 712,182 |
| Total Pension Liability, Beginning | 9,151,012 | 8,005,770 | 6,941,676 | 6,159,411 | 5,447,229 |
| Total Pension Liability, Ending | <u>\$ 10,482,489</u> | <u>\$ 9,151,012</u> | <u>\$ 8,005,771</u> | <u>\$ 6,941,676</u> | <u>\$ 6,159,411</u> |
| Fiduciary Net Position | | | | | |
| Employer Contributions | \$ 348,759 | \$ 280,540 | \$ 258,944 | \$ 256,442 | \$ 253,279 |
| Member Contributions | 303,269 | 279,422 | 273,147 | 256,462 | 238,493 |
| Investment Income Net of Investment Expenses | (165,632) | 1,128,455 | 509,582 | (100,000) | 396,774 |
| Benefit Payments/Refunds of Contributions | (190,539) | (212,218) | (200,586) | (201,996) | (185,865) |
| Administrative Expenses | (7,607) | (6,097) | (5,533) | (4,872) | (4,856) |
| Other | 14,670 | 4,602 | 9,588 | 4,566 | 460 |
| Net Changes in Fiduciary Net Position | 302,920 | 1,474,704 | 845,142 | 210,602 | 698,285 |
| Fiduciary Net Position, Beginning | 9,167,378 | 7,692,674 | 6,847,532 | 6,636,930 | 5,938,645 |
| Fiduciary Net Position, Ending | <u>\$ 9,470,298</u> | <u>\$ 9,167,378</u> | <u>\$ 7,692,674</u> | <u>\$ 6,847,532</u> | <u>\$ 6,636,930</u> |
| Net Pension Liability/(Asset), Ending | <u>\$ 1,012,191</u> | <u>\$ (16,366)</u> | <u>\$ 313,097</u> | <u>\$ 94,144</u> | <u>\$ (477,519)</u> |
| Fiduciary Net Position as a % of Total Pension Liability | 90.34% | 100.18% | 96.09% | 98.64% | 107.75% |
| Pensionable Covered Payroll | \$ 6,065,379 | \$ 5,588,447 | \$ 5,462,942 | \$ 5,098,245 | \$ 4,769,853 |
| Net Pension Liability/(Asset) as a % of Covered Payroll | 16.69% | -0.29% | 5.73% | 1.85% | -10.01% |

This schedule is presented to illustrate the requirements to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

**CHAMBERS COUNTY PUBLIC HOSPITAL DISTRICT NO. 1 d/b/a
BAYSIDE COMMUNITY HOSPITAL AND CHAMBERS COMMUNITY HEALTH CENTER,
INC. FOR BAYSIDE AND WEST CHAMBERS MEDICAL CLINICS**

REQUIRED SUPPLEMENTARY INFORMATION

| Schedule of District Contributions | | | | | |
|---|---|--|--|---------------------------------------|---|
| Year Ending December 31, | Actuarially Determined Contribution (1) | Actual Employer Contribution (1) | Contribution Deficiency (Excess) | Pensionable Covered Payroll (2) | Actual Contribution as a % of Covered Payroll |
| 2009 | 121,383 | 121,383 | - | 2,673,641 | 4.5% |
| 2010 | 170,414 | 170,414 | - | 3,367,870 | 5.1% |
| 2011 | 190,630 | 190,630 | - | 3,946,798 | 4.8% |
| 2012 | 206,600 | 206,600 | - | 4,259,791 | 4.9% |
| 2013 | 235,874 | 235,874 | - | 4,408,859 | 5.4% |
| 2014 | 253,279 | 253,279 | - | 4,769,853 | 5.3% |
| 2015 | 256,442 | 256,442 | - | 5,098,245 | 5.0% |
| 2016 | 258,944 | 258,944 | - | 5,462,942 | 4.7% |
| 2017 | 280,540 | 280,540 | - | 5,588,447 | 5.0% |
| 2018 | 348,759 | 348,759 | - | 6,065,379 | 5.8% |

Notes to Schedule:

(1) *Payroll is calculated based on contributions as reported to TCDRS.*

(2) *TCDRS calculates actuarially determined contributions on a calendar year basis. GASB Statement No. 68 indicates the employer should report employer contribution amounts on a fiscal year basis. If additional assistance is needed, please contact TCDRS.*

Valuation Date:

Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|--|
| Actuarial cost method | Entry Age |
| Amortization method | Level percentage of payroll, closed |
| Remaining amortization period | 18.9 years (based on contribution rate calculated in 12/31/2018 valuation) |
| Asset valuation method | 5-year smoothed market |
| Inflation | 2.75% |
| Salary increases | Varies by age and service. 4.9% average over career including inflation. |
| Investment rate of return | 8.00%, net of investment expenses, including inflation |

**CHAMBERS COUNTY PUBLIC HOSPITAL DISTRICT NO. 1 d/b/a
BAYSIDE COMMUNITY HOSPITAL AND CHAMBERS COMMUNITY HEALTH CENTER,
INC. FOR BAYSIDE AND WEST CHAMBERS MEDICAL CLINICS**

REQUIRED SUPPLEMENTARY INFORMATION

Methods and assumptions used to determine contribution rates (continued):

| | |
|--|---|
| Retirement age | Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61. |
| Mortality | 130% of the RP-2014 Health Annuitant Mortality Table for males and 110% of the RP-2014 Health Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014. |
| Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions | 2015: New Inflation, mortality and other assumptions were reflected 2017: New mortality assumptions were reflected. |
| Changes in Plan Provisions Reflected in the Schedule of Employer Contributions | 2015: No changes in plan provisions were reflected in the Schedule 2016: No changes in plan provisions were reflected in the Schedule 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017 2018: No Changes in plan provisions were reflected in the Schedule. |

Other Information

**CHAMBERS COUNTY PUBLIC HOSPITAL DISTRICT NO. 1 d/b/a
 BAYSIDE COMMUNITY HOSPITAL AND CHAMBERS COMMUNITY HEALTH CENTER,
 INC. FOR BAYSIDE AND WEST CHAMBERS MEDICAL CLINICS
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 YEAR ENDED SEPTEMBER 30, 2019**

| <i>Federal Grantor/Program or Cluster Title</i> | <i>Federal CFDA Number</i> | <i>Pass-through Grantor and Number</i> | <i>Federal Expenditures(\$)</i> |
|---|------------------------------------|---|-------------------------------------|
| <i>Health Centers Cluster-Cluster</i> | | | |
| Department of Health and Human Services Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers) | 93.224 | | \$ 1,540,171 |
| <i>Other Programs</i> | | | |
| Department of Health and Human Services Maternal and Child Health Services Block Grant to the States | 93.994 | Texas Department of State Health Services,537-17-0192-00001 | 93,867 |
| <i>Total Expenditures of Federal Awards</i> | | | <u><u>\$ 1,634,038</u></u> |

The accompanying notes are an integral part of this schedule

**CHAMBERS COUNTY PUBLIC HOSPITAL DISTRICT NO. 1 d/b/a
BAYSIDE COMMUNITY HOSPITAL AND CHAMBERS COMMUNITY HEALTH CENTER,
INC. FOR BAYSIDE AND WEST CHAMBERS MEDICAL CLINICS**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED SEPTEMBER 30, 2019

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Chambers County Public Hospital District No. 1 d/b/a Bayside Community Hospital and Chambers Community Health Center, Inc. for Bayside and West Chambers Medical Clinics’ (the “District”) under programs of the federal government for the year ended September 30, 2019. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the Schedule presents only a selected portion of the operations of the District, it is not intended to and does not present the financial position, changes in net assets, or cash flows of the District.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – INDIRECT COST RATE

The District has elected to use the 10% de minimis indirect cost rate as allowed under the Uniform Guidance.

NOTE 4 – SUBRECIPIENTS

There were no awards passed through to subrecipients.



INDEPENDENT AUDITOR’S 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

Board of Directors and Management
Chambers County Public Hospital District No. 1
d/b/a Bayside Community Hospital and Chambers Community
Health Center, Inc. for Bayside and West Chambers Medical Clinics
Anahuac, Texas

We have audited, in accordance with the 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 Chambers County Public Hospital District No. 1 d/b/a Bayside Community Hospital and Chambers Community Health Center, Inc. for Bayside and West Chambers Medical Clinics’ (the “District”), as of and for the year ended September 30, 2019, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements and have issued our report thereon date April 24, 2020.

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) to determine the 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 District’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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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 determination of financial statement amounts. 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*.

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 results of that testing, and not to provide an opinion on the effectiveness of the District'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.

Durbin & Company, L.L.P.

Durbin & Company, L. L. P.
Lubbock, Texas
April 24, 2020

**INDEPENDENT AUDITOR’S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM
GUIDANCE**

Board of Directors and Management
Chambers County Public Hospital District No. 1
d/b/a Bayside Community Hospital and Chambers Community
Health Center, Inc. for Bayside and West Chambers Medical Clinics
Anahuac, Texas

Report on Compliance for Each Major Federal Program

We have audited Chambers County Public Hospital District No. 1 d/b/a Bayside Community Hospital and Chambers Community Health Center, Inc. for Bayside and West Chambers Medical Clinics’ (the “District”) compliance with the types of compliance requirements described in the *Compliance Supplement* that could have a direct and material effect on each of the District’s major federal programs for the year ended September 30, 2019. The District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the District’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining on a test basis, evidence about the District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the District’s compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2019.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Durbin & Company, L.L.P.

Durbin & Company, L. L. P.
Lubbock, Texas
April 24, 2020

**CHAMBERS COUNTY PUBLIC HOSPITAL DISTRICT NO. 1 d/b/a
BAYSIDE COMMUNITY HOSPITAL AND CHAMBERS COMMUNITY HEALTH CENTER,
INC. FOR BAYSIDE AND WEST CHAMBERS MEDICAL CLINICS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR END SEPTEMBER 30, 2019**

SECTION I - SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Chambers County Public Hospital District No. 1 were prepared in accordance with GAAP.
2. No material weaknesses related to the audit of the financial statements are reported in the Independent Auditor's 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*.
3. No significant deficiencies related to the audit of the financial statements are reported in the Independent Auditor's 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*.
4. No instances of noncompliance material to the financial statements of Chambers County Public Hospital District No. 1, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
5. No significant deficiencies or material weaknesses relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
6. The auditor's report on compliance for the major federal award programs for Chambers County Public Hospital District No. 1 expresses an unmodified opinion on all major federal programs.
7. Audit findings that are required to be reported in accordance with 2 CFR §200.516(a) are reported in this Schedule.
8. The program tested as a major program was: *93.224 Consolidated Health Centers*
9. The threshold used for distinguishing between Type A and B programs was \$750,000.
10. Chambers County Public Hospital District No. 1 was not determined to be a low-risk auditee.

**CHAMBERS COUNTY PUBLIC HOSPITAL DISTRICT NO. 1 d/b/a
BAYSIDE COMMUNITY HOSPITAL AND CHAMBERS COMMUNITY HEALTH CENTER,
INC. FOR BAYSIDE AND WEST CHAMBERS MEDICAL CLINICS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR END SEPTEMBER 30, 2019**

**SECTION II – FINDINGS REQUIRED TO BE REPORTED BY *GOVERNMENT AUDITING
STANDARDS***

None Noted

SECTION III – FINDINGS REQUIRED TO BE REPORTED BY UNIFORM GUIDANCE

None Noted

**CHAMBERS COUNTY PUBLIC HOSPITAL DISTRICT NO. 1 d/b/a
BAYSIDE COMMUNITY HOSPITAL AND CHAMBERS COMMUNITY HEALTH CENTER,
INC. FOR BAYSIDE AND WEST CHAMBERS MEDICAL CLINICS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR END SEPTEMBER 30, 2019**

SECTION IV – SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

| Reference Number | Finding |
|-----------------------------|--|
| 2018-001 | <p>Criteria or Specific Requirement - Management is responsible for establishing a process to recognize estimated third-party payor settlements.</p> <p>Condition - Management prefers to wait until the cost report is prepared, five months after year end, to adjust this estimate due to the complexity involved in determining the amount.</p> <p>Context - Financial statements presented do not accurately reflect the estimated third-party payor settlements for the current year</p> <p>Effect - The lack of a process to recognize this activity will most likely result in a material misstatement in net patient service revenue and consequently a material adjustment during the audit engagement.</p> <p>Cause - As a critical access hospital, management constantly monitors costs and considers potential reimbursement impacts; but due to the complexity of the calculations involved in determining a cost report settlement and the fact Medicare and Medicaid logs are not available until after year-end, management prefers to wait until cost report is prepared to record the estimates</p> <p>Recommendation - Management should review and refine its process for estimating third party reimbursement settlements in an attempt to avoid material audit adjustments.</p> <p>Status - Corrective actions were implemented</p> |

**CHAMBERS COUNTY PUBLIC HOSPITAL DISTRICT NO. 1 d/b/a
BAYSIDE COMMUNITY HOSPITAL AND CHAMBERS COMMUNITY HEALTH CENTER,
INC. FOR BAYSIDE AND WEST CHAMBERS MEDICAL CLINICS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR END SEPTEMBER 30, 2019**

| Reference Number | Finding |
|-----------------------------|---|
| 2018-002 | <p>Criteria or Specific Requirement - Management is responsible for establishing a process to record retirement expense due to the amortization of the deferred inflows and outflows of resources based on actuarial valuations.</p> <p>Condition - It was noted during evaluation of the deferred inflows and outflows of resources for the retirement plan that material entries were posted to agree to the actuarial valuation.</p> <p>Context - Actuarial valuations are performed annually for the retirement plan in order to determine funding amounts for the District and to evaluate the deferred inflows and outflows of resources.</p> <p>Effect - The lack of an evaluation of the actuarial valuation by the District could result in material entries being posted during audit.</p> <p>Cause - The District does not have a process in place to evaluate the deferred inflows and outflows of resources balances at year end.</p> <p>Recommendation - Management should implement a process for evaluating and recording increases or decreases to retirement expense based on the actuarial valuation performed for the retirement plan. This should be done, at least on an annual basis.</p> <p>Status - Corrective actions were implemented</p> |

**CHAMBERS COUNTY PUBLIC HOSPITAL DISTRICT NO. 1 d/b/a
BAYSIDE COMMUNITY HOSPITAL AND CHAMBERS COMMUNITY HEALTH CENTER,
INC. FOR BAYSIDE AND WEST CHAMBERS MEDICAL CLINICS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR END SEPTEMBER 30, 2019**

| Reference Number | Finding |
|-----------------------------|---|
| 2018-003 | <p>Criteria or Specific Requirement - Management is responsible for establishing a process to recognize estimated Medicaid supplemental payments.</p> <p>Condition - Due to various delays and changes in the State program related to the nursing home, outside of managements control, the state payments have been recorded when received, and no provision for estimates have been made.</p> <p>Context - Financial statements presented do not reflect the estimated Medicaid supplemental payments for Nursing Home QIPP/MPAP and Uncompensated Care payments received after year end.</p> <p>Effect - The lack of a process to recognize this activity will most likely result in a material misstatement in revenue and consequently a material adjustment during the audit engagement.</p> <p>Cause - Management has not implemented a process to estimate the current year estimates due to the complexity of the calculations and the ever changing nature of the payments.</p> <p>Recommendation - Management should develop a basic process to provide a conservative estimate of the Medicaid Supplemental payments with monthly reporting, and have the understanding a material year end adjustment is possible.</p> <p>Status - Corrective actions were implemented</p> |