




Nacogdoches County Hospital District

Independent Auditor's Report and Financial Statements

June 30, 2022



Nacogdoches County Hospital District
June 30, 2022

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Independent Auditor's Report

Board of Directors
Nacogdoches County Hospital District
Nacogdoches, Texas

Opinions

We have audited the financial statements of the business-type activities and the fiduciary activities of Nacogdoches County Hospital District (the District) as of and for the year ended June 30, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the fiduciary activities of the District, as of June 30, 2022, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, as of July 1, 2021, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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 pension 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.

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

FORVIS,LLP

**Dallas, Texas
December 21, 2023**

Nacogdoches County Hospital District
Balance Sheet
June 30, 2022

Assets and Deferred Outflows of Resources

Current Assets

| | |
|---|------------------|
| Cash | \$ 4,963,277 |
| Patient accounts receivable, net of allowance; 2022 – \$1,829,000 | 327,475 |
| Nursing home patient accounts receivable, net of allowance; 2022 – \$329,000 | 2,964,831 |
| Sales tax receivable | 1,679,973 |
| Estimated amounts due from third-party payers | 2,196,908 |
| Leases receivable | 562,329 |
| Prepaid expenses and other | <u>2,126,988</u> |

Total current assets 14,821,781

Noncurrent Cash and Investments

| | |
|--|---------------|
| Restricted for capital acquisition, debt service and other | 4,925,470 |
| Restricted for scholarships | <u>90,982</u> |

Total noncurrent cash and investments 5,016,452

Capital Assets, Net

40,473,075

Other Assets

| | |
|--|----------------|
| Leases receivable, net of allowance; 2022- \$5,975,000 | 99,372 |
| Deferred financing costs | <u>190,184</u> |

Total other assets 289,556

Total assets 60,600,864

Deferred Outflows of Resources

| | |
|------------------------|------------------|
| Loss on bond refunding | 57,648 |
| Pensions | <u>7,402,648</u> |

Total deferred outflows of resources 7,460,296

Total assets and deferred outflows of resources \$ 68,061,160

Nacogdoches County Hospital District
Balance Sheet (Continued)
June 30, 2022

Liabilities, Deferred Inflows of Resources and Net Position

| | |
|--|-----------------------------|
| Current Liabilities | |
| Notes payable | \$ 43,046 |
| Current maturities of long-term debt | 1,682,353 |
| Current maturities of lease financing obligations | 446,071 |
| Accounts payable | 769,325 |
| Management fee payable | 5,489,431 |
| Accrued expenses | 970,077 |
| Estimated amounts due to third-party payers | 7,234,385 |
| Estimated self-insurance costs | 60,660 |
| Medicare Advance Payments | <u>807,015</u> |
| Total current liabilities | 17,502,363 |
| Long-term Debt | 51,739,420 |
| Lease Financing Obligations | 5,699,074 |
| Net Pension Liability | <u>10,752,776</u> |
| Total liabilities | <u>85,693,633</u> |
| Deferred Inflows of Resources | |
| Pensions | 5,531,277 |
| Leases | <u>582,773</u> |
| Total deferred inflows of resources | <u>6,114,050</u> |
| Net Position | |
| Net investment in capital assets | (9,879,514) |
| Restricted expendable for scholarships | 90,982 |
| Restricted expendable for debt service | 726,148 |
| Restricted expendable for Medicare advance payments | 833,572 |
| Unrestricted | <u>(15,517,711)</u> |
| Total net position | <u>(23,746,523)</u> |
| Total liabilities, deferred inflows of resources and net position | <u><u>\$ 68,061,160</u></u> |

Nacogdoches County Hospital District
Statement of Revenues, Expenses and Changes in Net Position
Year Ended June 30, 2022

Operating Revenues

| | |
|---|-------------------|
| Net patient service revenue, net of provision for uncollectible accounts; 2022 – \$2,108,000 | \$ 3,513,813 |
| Nursing home net patient service revenue, net of provision for uncollectible accounts; 2022 – \$329,000 | 25,191,837 |
| Other | <u>683,356</u> |
| Total operating revenues | <u>29,389,006</u> |

Operating Expenses

| | |
|--|-------------------|
| Salaries and wages | 2,101,180 |
| Employee benefits | 5,599,445 |
| Purchased services and professional fees | 1,079,853 |
| Nursing facility fees | 23,481,376 |
| Supplies and other | 10,139,007 |
| Depreciation and amortization | <u>3,640,217</u> |
| Total operating expenses | <u>46,041,078</u> |

Operating Loss (16,652,072)

Nonoperating Revenues (Expenses)

| | |
|-----------------------------|------------------|
| Sales taxes | 9,752,894 |
| Investment return | 330,079 |
| Interest expense | (2,400,618) |
| Noncapital grants and gifts | <u>450,701</u> |
| Total nonoperating revenues | <u>8,133,056</u> |

Deficiency of Revenues Over Expenses Before Special Item (8,519,016)

Special Item - Gain on Disposal of Operations (Note 2) 3,187,653

Decrease in Net Position (5,331,363)

Net Position, Beginning of Year (18,415,160)

Net Position, End of Year \$ (23,746,523)

Nacogdoches County Hospital District
Statement of Cash Flows
Year Ended June 30, 2022

| | |
|---|----------------------------|
| Operating Activities | |
| Receipts from and on behalf of patients | \$ 38,372,416 |
| Payments to suppliers and contractors | (34,994,207) |
| Payments to employees | (5,041,664) |
| Other receipts, net | <u>(5,639,300)</u> |
| Net cash used in operating activities | <u>(7,302,755)</u> |
| Noncapital Financing Activities | |
| Sales taxes supporting operations | 5,893,020 |
| Proceeds from line of credit and short-term loans | 77,722 |
| Principal payments on line of credit and short-term loans | (61,172) |
| Interest payments on line of credit and short-term loans | (210,563) |
| Cash received in transfer of operations | 2,969,008 |
| Noncapital grants and gifts | <u>450,701</u> |
| Net cash provided by noncapital financing activities | <u>9,118,716</u> |
| Capital and Related Financing Activities | |
| Sales taxes to retire capital-related debt | 3,766,994 |
| Principal paid on long-term debt | (1,883,326) |
| Interest paid on debt obligations | (2,029,321) |
| Purchase of capital assets | <u>(565,851)</u> |
| Net cash used in capital and related financing activities | <u>(711,504)</u> |
| Investing Activity | |
| Income from investments | <u>11,428</u> |
| Net cash provided by investing activity | <u>11,428</u> |
| Increase in Cash and Restricted Cash | 1,115,885 |
| Cash and Restricted Cash, Beginning of Year | <u>8,863,844</u> |
| Cash and Restricted Cash, End of Year | <u><u>\$ 9,979,729</u></u> |

Nacogdoches County Hospital District
Statement of Cash Flows (Continued)
Year Ended June 30, 2022

| | |
|--|----------------------------|
| Reconciliation of Cash to the Balance Sheet | |
| Cash in current assets | \$ 4,963,277 |
| Cash in noncurrent cash and investments | <u>5,016,452</u> |
| Total cash | <u><u>\$ 9,979,729</u></u> |

| | |
|---|------------------------------|
| Reconciliation of Operating Loss to Net Cash | |
| Used In Operating Activities | |
| Operating loss | \$ (16,652,072) |
| Depreciation and amortization | 3,640,217 |
| Provision for uncollectible accounts | 2,108,119 |
| Noncash lease income from Lion Star | (487,871) |
| Changes in operating assets and liabilities | |
| Patient accounts receivable, net | 2,176,131 |
| Accounts payable and accrued liabilities | (9,013,161) |
| Estimated third-party payer settlements | 5,382,516 |
| Net pension liability | 6,008,162 |
| Deferred outflows of resources - pensions | (6,170,608) |
| Deferred inflows of resources - pensions | 5,253,716 |
| Other assets and liabilities | <u>452,096</u> |
| Net cash used in operating activities | <u><u>\$ (7,302,755)</u></u> |

| | |
|---|------------|
| Noncash Capital and Financing Activities | |
| Capital asset acquisitions included in accounts payable | \$ 312,104 |
| Lease financing obligation payments made by Lion Star | \$ 487,871 |

Nacogdoches County Hospital District
Fiduciary Net Position-Pension Trust Fund
June 30, 2022

Assets

| | |
|---|----------------------|
| Investments, pooled separate accounts measured at NAV | <u>\$ 36,540,900</u> |
|---|----------------------|

Net Position

| | |
|-------------------------------------|----------------------|
| Net position restricted for pension | <u>\$ 36,540,900</u> |
|-------------------------------------|----------------------|

Nacogdoches County Hospital District
Statement of Changes in Fiduciary Net Position-Pension Trust Fund
Year Ended June 30, 2022

| | |
|--|-----------------------------|
| Additions | |
| Investment income | |
| Net depreciation of investments | <u>\$ (5,235,432)</u> |
| Total additions | <u>(5,235,432)</u> |
| Deductions | |
| Benefits paid to plan members | 8,707,484 |
| Administrative expenses | <u>234,855</u> |
| Total deductions | <u>8,942,339</u> |
| Net Decrease in Net Position | (14,177,771) |
| Net Position Restricted for Pensions, Beginning of Year | <u>50,718,671</u> |
| Net Position Restricted for Pensions, End of Year | <u><u>\$ 36,540,900</u></u> |

Nacogdoches County Hospital District

Notes to Financial Statements

June 30, 2022

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

Nature of Operations and Reporting Entity

Nacogdoches County Hospital District (the District) is an acute care hospital located in Nacogdoches, Texas. The District primarily earns revenues by providing inpatient, outpatient, and emergency care services to patients in Nacogdoches County (the County) and surrounding areas. The District is governed by a seven-member board of directors that are elected to their positions and serve two-year staggered terms. In 2017, the District acquired the operations of five nursing homes located in the District's service area. Effective July 14, 2021, the District transferred the hospital operations to Lion Star Nacogdoches Hospital, LLC (Lion Star) as discussed in *Note 2*.

The District is authorized to, but has not, levied a tax on property within its boundaries, not to exceed \$0.75 per \$100 valuation, for the purpose of paying the indebtedness assumed or incurred by the District and the maintenance and operating expenses of the District. On January 18, 1992, voters of the District adopted a local sales and use tax of one percent on sales within the District. The tax started in July 1992, and the District eliminated the property tax assessment as of that date.

The Nacogdoches Memorial Hospital Corporation (the Foundation) is a legally separate, tax-exempt component unit of the District. The Foundation's primary function is to raise and hold funds to support the District and its programs. Because the Foundation operates primarily for the exclusive benefit of the District, it is reported as a blended component unit of the District. The Foundation does not issue separate financial statements.

The Nacogdoches Memorial Hospital Defined Benefit Plan (Plan) is a single-employer defined benefit plan included in the financial statements as a pension trust fiduciary fund. The Board of the District performs the governing duties of the Plan, as the Plan does not have a separate board. The fiduciary fund statement is presented as of June 30, 2022, the Plan fiscal year end. For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at NAV. Separate financial statements of the Plan are available at www.nacmem.org.

Basis of Accounting and Presentation

The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally state grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions.

Nacogdoches County Hospital District
Notes to Financial Statements
June 30, 2022

Government-mandated nonexchange transactions that are not program specific, sales taxes, investment return and interest on capital assets-related debt are included in nonoperating revenues and expenses. The District first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Sales Taxes

The District received approximately 30.3 percent of its financial support from sales taxes in 2022. These funds were used as follows:

| | |
|---|--------------------|
| Percentage used to support operations | 61% |
| Percentage used for debt service on bonds | <u>39%</u> |
| Total | <u><u>100%</u></u> |

Sales taxes are collected by the state of Texas and remitted to the District monthly. The tax is collected by the vendor and is required to be remitted to the state by the 20th of the month following collection. The tax is then paid to the District by the Friday following the second Wednesday of the subsequent month.

Risk Management

The District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice and employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The District is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Nacogdoches County Hospital District
Notes to Financial Statements
June 30, 2022

Cash Equivalents

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. The District did not have any cash equivalents at June 30, 2022.

Investment Income

Investment income for the year ended June 30, 2022 consisted of interest earned on deposits and investments.

Patient Accounts Receivable

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

Capital Assets

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

| | |
|----------------------------|-------------|
| Land improvements | 5–25 years |
| Buildings and improvements | 25–40 years |
| Equipment | 3–20 years |
| Computer software | 3–5 years |

Capital and Lease Asset Impairment

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

No impairment losses were recognized during the year ended June 30, 2022.

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.

Nacogdoches County Hospital District
Notes to Financial Statements
June 30, 2022

Compensated Absences

District policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments, such as Social Security and Medicare taxes, computed using rates in effect at that date.

Defined Benefit Pension Plan

Through September 3, 2017, the District had an agent multiple-employer defined benefit pension plan through the Texas Hospital Association, (the Plan). For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. 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.

Effective September 4, 2017, all benefit accruals under the Plan were frozen as was entry into the Plan. Additionally, the District withdrew from the THA multiple-employer plan and now sponsors a single-employer defined benefit pension plan (the Nacogdoches Memorial Hospital Defined Benefit Plan).

The Plan is reported as a fiduciary fund in the accompanying financial statements.

Net Position

Net position of the District is classified in three components. Net investment in capital assets, consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the District, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Nacogdoches County Hospital District

Notes to Financial Statements

June 30, 2022

Nursing Home Patient Accounts Receivable and Net Patient Service Revenue

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

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

Net Patient Service Revenue

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

Income Taxes

As an essential government function of the County, the District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. The Foundation has been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, both the District and the Foundation are subject to federal income tax on any unrelated business taxable income.

The Foundation files tax returns in the U.S. federal jurisdiction.

Changes in Accounting Principle

On July 1, 2021, the District adopted GASB Statement No. 87, *Leases*. The statement requires lessors to recognize a lease receivable, measured at the present value of payments expected to be received during the lease term, and a deferred inflows of resources for the leases. The statement requires lessees to recognize a lease liability, measured at the present value of payments expected to be made during the lease term, and an intangible right-to-use lease asset.

Nacogdoches County Hospital District
Notes to Financial Statements
June 30, 2022

Note 2: Transfer of Operations

Effective July 14, 2021, the District transferred operations of the Hospital to Lion Star. The parties executed a Hospital Asset Purchase Agreement and concurrently entered into a Hospital Facility Lease Agreement among various other agreements (Agreements). Under the terms of the Agreements certain assets and liabilities of the District were purchased for \$3,000,000. Additionally, \$6,000,000 was to be held in escrow for funding of the Medicare Advance Payment recoupments. At June 30, 2022, approximately \$834,000 remained in the escrow account.

Lion Star is leasing the hospital and certain ancillary operations from the District for a base rent of \$3,100,000 for an initial term of ten years. The lease agreement includes a provision whereby if the Lion Star provides a minimum of \$9,000,000 in charity care services during the lease year then the base rent amount will be forgiven. At June 30, 2022, Lion Star had met the minimum charity care service obligation and therefore no rental income is recognized.

The District subleases two properties to Lion Star resulting in a lease receivable of \$6,636,289 at June 30, 2022 under GASB Statement No. 87, *Leases*. However, in November 2023, Lion Star filed for bankruptcy due to failure to meet payment obligations. Therefore, the District reserved for the lease receivable at the time of bankruptcy leaving a lease receivable, net of allowances, of \$661,701. This is due to Lion Star continuing to make lease payments through November 2023. See *Note 18* for a subsequent event on this matter.

The District has accounted for the transfer of operations in accordance with GASB 69, *Government Combinations and Disposals of Government Operations*. The following table summarizes the amounts of the assets and liabilities disposed of, net of consideration received:

| | |
|---|--------------------|
| Assets | |
| Cash | \$ 30,992 |
| Patient accounts receivable, net | 2,807,068 |
| Estimated amounts due from third-party payers | 675,455 |
| Supplies | 1,092,526 |
| Other current assets | <u>324,798</u> |
| Total assets contributed at date of disposal | 4,930,839 |
| Liabilities | |
| Accounts payable | \$ (2,314,708) |
| Accrued expenses | (2,563,918) |
| Long term debt | <u>(239,866)</u> |
| Total liabilities contributed at date of disposal | <u>(5,118,492)</u> |
| Consideration Received | <u>3,000,000</u> |
| Gain on Disposal of Operations | (3,187,653) |

Nacogdoches County Hospital District

Notes to Financial Statements

June 30, 2022

Note 3: Net Patient Service Revenue

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

Medicare. Services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on various factors.

Medicaid. Services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates for all other services.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. Settlements under reimbursement agreements with Medicare and Medicaid programs are estimated and recorded in the period the related services are rendered and are adjusted in future periods as adjustments become known or as the service years are no longer subject to audit, review or investigation. Annual cost reports required under the Medicare and Medicaid programs are subject to routine audits, which may result in adjustments to the amounts ultimately determined to be due under the reimbursement programs. These audits often require several years to reach their financial determination of amounts earned under the programs. As a result, it is reasonably possible that recorded estimates will change materially in the near term. A final cost report covering dates of service July 1, 2020 through July 15, 2021 was submitted on April 15, 2022.

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

Subsequent to the transfer of operations to Lion Star, the District retained operations of emergency medical services (EMS).

Supplemental Medicaid Funding Revenue

In response to the growing number of uninsured patients and the rising cost of health care, the Texas Legislature established a Texas Medicaid Program (DSH Program) that was designed to assist those facilities serving the majority of indigent patients by providing funds supporting increased access to health care within the community. This program allows the Texas Department of Human Services to levy assessments from certain hospitals, use the assessed funds to obtain federal matching funds, and then redistribute the total funds to those facilities serving a disproportionate share of indigent patients in the state of Texas.

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

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

On November 30, 2020, CMS approved an additional extension to extend the Waiver for an additional ten-year period through September 30, 2030. This latest extension would have ended the DSRIP pool effective September 30, 2021, expanded and added other direct payment programs and made other administrative changes to reflect CMS policy changes beginning September 1, 2021. On April 16, 2021, CMS rescinded the extension approval citing an improper exemption from the public notice and comment process originally granted. In August 2021, CMS indicated that new directed payment programs would not be approved, but offered to HHSC that Uniform Hospital Rate Increase Program (UHRIP) and DSRIP would be extended through September 30, 2022 while HHSC and CMS negotiated an extension and terms of the Waiver and new direct payment programs. In September 2021, HHSC accepted the terms of certain directed payment programs and an extension of the DSRIP pool through September 30, 2022. In November 2021, CMS notified HHSC that they did not believe HHSC accepted the August 2021 offer to extend UHRIP and DSRIP; in essence, the negotiations are stalled. HHSC is also seeking resolution through judicial action.

In 2018, the District began to participate in UHRIP. Under UHRIP, HHSC may direct managed care organizations in a service delivery area to provide a uniform percentage rate increase to all hospitals within a particular class of hospitals. The program increases revenue from services provided to the Medicaid managed care beneficiaries. The state's share of UHRIP funding is funded through intergovernmental transfers from certain hospitals, including the District.

Total revenue recognized from these programs was approximately \$1,675,000 for the year ended June 30, 2022 and is included as net patient service revenue within operating revenues in the statement of revenues, expenses and changes in net position. These amounts are inclusive of changes in estimates of approximately \$(830,000) for the year ended June 30, 2022. No receivable or prepaid intergovernmental transfer is recorded under these programs at June 30, 2022.

The funding from the DSH Program and the UC Pool has historically been limited by a federally determined Hospital Specific Limit (HSL) calculation and is subject to recoupment based on subsequent audit results. There has been litigation in U.S. district and circuit appellate courts regarding the legislative intent of certain aspects of the HSL calculation. On August 13, 2019, the D.C. Circuit Court of Appeals issued an opinion in the case of *Children's Hospital Association of Texas vs. Azar* that held that the HSL could be reduced by payments received from other third-party payers related to Medicaid eligible patients. On November 30, 2020, a related final ruling was issued that reinstated the rule's original 2017 effective date. This is expected to result in partial recoupment of DSH Program and UC Pool funds the District has received for 2019 and 2018. The District has estimated a liability of approximately \$7,234,000 that is included in estimated amounts due to third-party payers current in the accompanying balance sheet at June 30, 2022.

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These programs are subject to review and scrutiny by both the Texas Legislature and CMS and the programs could be modified or terminated based on new legislation or regulations in future periods. The funding received is also subject to audit by the Medicaid Administrative Contractor. As a result, it is reasonably possible that recorded estimates could change materially in the near term.

Note 4: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Texas; bonds of any city, county, school district or special road district of the state of Texas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At June 30, 2022, the District had \$907,121 in bank deposits that were uninsured and uncollateralized.

Investments

The District may legally invest in public fund investment pools, direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury, U.S. agencies or instrumentalities and in bank repurchase agreements.

Interest Rate Risk. Interest rate risk is the risk that market values of investments will change based on changes in market interest rates. The District's investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations.

Custodial Credit Risk. For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

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

At June 30, 2022, the District did not hold liquid investments and was not exposed to the above risks.

Nacogdoches County Hospital District
Notes to Financial Statements
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Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheet as follows:

| | |
|---|----------------------------|
| Carrying value | |
| Deposits | <u><u>\$ 9,979,729</u></u> |
| | |
| Included in the following balance sheet captions | |
| Cash and cash equivalents | \$ 4,963,277 |
| Restricted for capital acquisitions, debt service and other | 4,925,470 |
| Restricted for scholarships | <u>90,982</u> |
| | <u><u>\$ 9,979,729</u></u> |

Note 5: Patient Accounts Receivable

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

| | |
|---|--------------------------|
| Medicare | \$ 540,002 |
| Medicaid | 220,311 |
| Other third-party payers | 563,821 |
| Patients | <u>831,965</u> |
| | 2,156,099 |
| Less allowance for uncollectible accounts | <u>(1,828,624)</u> |
| | <u><u>\$ 327,475</u></u> |

Nacogdoches County Hospital District
Notes to Financial Statements
June 30, 2022

Note 6: Capital Assets

Capital assets activity for the year ended June 30 was:

| | Beginning Balance | Additions | Disposals | Transfers | Ending Balance |
|-------------------------------|------------------------------|-----------------------|--------------------|------------------|---------------------------|
| Land | \$ 2,346,143 | \$ - | \$ - | \$ - | \$ 2,346,143 |
| Land improvements | 4,019,487 | - | - | - | 4,019,487 |
| Buildings and improvements | 79,523,458 | 62,360 | - | - | 79,585,818 |
| Equipment | 70,470,005 | 209,758 | (434,640) | 511,119 | 70,756,242 |
| Construction in progress | 782,495 | 303,999 | (82,504) | (511,119) | 492,871 |
| | <u>157,141,588</u> | <u>576,117</u> | <u>(517,144)</u> | <u>-</u> | <u>157,200,561</u> |
| Less accumulated depreciation | <u>113,521,909</u> | <u>3,640,217</u> | <u>(434,640)</u> | <u>-</u> | <u>116,727,486</u> |
| Capital assets, net | <u>\$ 43,619,679</u> | <u>\$ (3,064,100)</u> | <u>\$ (82,504)</u> | <u>\$ -</u> | <u>\$ 40,473,075</u> |

Note 7: Accounts Payable and Accrued Expenses

Accounts payable at June 30 consisted of:

| | |
|----------------------|-------------------|
| Payable to suppliers | <u>\$ 769,325</u> |
| | <u>\$ 769,325</u> |

Nacogdoches County Hospital District
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Accrued expenses included in current liabilities at June 30 consisted of:

| | | |
|---|----|---------|
| Payable to employees (including payroll taxes and benefits) | \$ | 199,280 |
| Accrued interest expense | | 280,824 |
| Patient refunds | | 489,973 |
| | | 489,973 |
| | \$ | 970,077 |

Note 8: Employee Health Claims

Substantially all of the District’s employees and their dependents are eligible to participate in the District’s employee health insurance plan. The District is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$150,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims, including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the District’s estimate will change by a material amount in the near term.

The District’s accrued employees health claims liability is included as estimated self-insurance costs within the accompanying financial statements. Activity in the District’s accrued employee health claims liability during 2022 is summarized as follows:

| | | |
|---|----|-----------|
| Balance, beginning of year | \$ | 126,216 |
| Current year claims incurred and changes in estimates for claims incurred in prior years | | 336,359 |
| Claims and expenses paid | | (401,915) |
| | | (401,915) |
| Balance, end of year | \$ | 60,660 |

Nacogdoches County Hospital District
Notes to Financial Statements
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Note 9: Lease Financing Obligations

During 2017, the District entered into two sale-leaseback transactions involving certain properties that did not qualify for sale-leaseback accounting and, as a result, the transaction has been classified as a financing transaction. Under the financing method, the leased asset remains on the balance sheet and proceeds received by the District from the sale-leaseback transaction are recorded as a financing liability. Payments under these leases are applied as payments of interest and principal on the underlying financing obligation. The implied interest rates on the lease financing obligations are 4.80 percent and 6.24 percent. As part of the transfer of operations agreements entered into during 2022, the District subleases these properties to Lion Star resulting in a lease receivable under GASB Statement No. 87, *Leases*. As disclosed in *Note 2*, the District reserved for a portion of the lease receivable. See *Note 18* for a subsequent event on this matter.

The following is a summary of lease financing obligations transactions for the District's year ending June 30:

| | | |
|----------------------------|-----------|------------------|
| Balance, beginning of year | \$ | 6,554,088 |
| Additions | | - |
| Deductions | | <u>(408,942)</u> |
| Balance, end of year | | 6,145,146 |
| Less current maturities | | <u>(446,071)</u> |
| | <u>\$</u> | <u>5,699,075</u> |

At June 30, 2022, payments required on the lease financing obligations were as follows:

| Year Ending June 30, | Total to be Paid | Principal | Interest |
|----------------------|---------------------|---------------------|---------------------|
| 2023 | \$ 759,572 | \$ 446,071 | \$ 313,501 |
| 2024 | 774,764 | 485,520 | 289,244 |
| 2025 | 790,259 | 527,424 | 262,835 |
| 2026 | 806,064 | 571,922 | 234,142 |
| 2027 | 822,185 | 619,168 | 203,017 |
| 2028-2032 | <u>3,952,512</u> | <u>3,495,041</u> | <u>457,471</u> |
| | <u>\$ 7,905,356</u> | <u>\$ 6,145,146</u> | <u>\$ 1,760,210</u> |

Nacogdoches County Hospital District
Notes to Financial Statements
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Note 10: Long-Term Obligations

The following is a summary of long-term obligation transactions for the District for the year ended June 30:

| | Beginning Balance | Additions | Deductions | Ending Balance | Current Portion |
|-----------------------------------|------------------------------|------------------|-----------------------|---------------------------|----------------------------|
| Long-term debt | | | | | |
| Sales tax refunding bonds payable | | | | | |
| Series 2016 | \$ 6,895,000 | \$ - | \$ (40,000) | \$ 6,855,000 | \$ 50,000 |
| Series 2015 | 5,075,000 | - | (940,000) | 4,135,000 | 975,000 |
| Series 2013 | 40,415,000 | - | (560,000) | 39,855,000 | 585,000 |
| Note payable to bank | 357,399 | - | (89,480) | 267,919 | 72,353 |
| Lease liabilities | 253,846 | - | (253,846) | - | - |
| | <u>52,996,245</u> | <u>-</u> | <u>(1,883,326)</u> | <u>51,112,919</u> | <u>\$ 1,682,353</u> |
| Series 2016 Premium | 393,292 | - | (46,683) | 346,609 | |
| Series 2015 Premium | 174,221 | - | (61,442) | 112,779 | |
| Series 2013 Premium | 1,938,333 | - | (88,867) | 1,849,466 | |
| | <u>\$ 55,502,091</u> | <u>\$ -</u> | <u>\$ (2,080,318)</u> | <u>\$ 53,421,773</u> | |

Sales Tax Refunding Bonds Payable – Series 2016

On February 23, 2016, the District issued \$7,270,000 in Sales Tax Improvement and Refunding Bonds Series 2016 (the Series 2016 Bonds), which bear interest at rates ranging from 2.00 percent to 4.00 percent. The funds were used to refund the remaining obligation on the Series 2006 Bonds.

The Series 2016 Bonds are secured by a lien on and pledge of the proceeds of a one percent limited sales and use tax levied and collected sufficient to cover the required annual payments of principal and interest of the bonds outstanding. Remaining annual principal payments range from \$40,000 to \$1,440,000 with the final payment due on May 15, 2031. The Series 2016 Bonds having stated maturities on or after May 15, 2031 may be redeemed at the District's option on or after May 15, 2030 at a redemption price of par plus accrued interest to the date of redemption. The Series 2016 Bonds were issued at a premium of \$623,075 and the unamortized premium at June 30, 2022 is \$346,609.

Sales Tax Refunding Bonds Payable – Series 2015

On November 1, 2015, the District issued \$8,775,000 in Sales Tax Improvement and Refunding Bonds Series 2015 (the Series 2015 Bonds), which bear interest at rates ranging from 2.00 percent to 4.00 percent. The funds were used to refund the remaining obligation on the Series 2005 Bonds.

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The Series 2015 Bonds are secured by a lien on and pledge of the proceeds of a one percent limited sales and use tax levied and collected sufficient to cover the required annual payments of principal and interest of the bonds outstanding. Remaining annual principal payments range from \$940,000 to \$1,095,000 with the final payment due on May 15, 2026. The Series 2015 Bonds having stated maturities on or after May 15, 2026 may be redeemed at the District's option on or after May 15, 2025 at a redemption price of par plus accrued interest to the date of redemption. The Series 2015 Bonds were issued at a premium of \$774,046 and the unamortized premium at June 30, 2022 is \$112,779.

Sales Tax Refunding Bonds Payable – Series 2013

On January 9, 2013, the District issued \$44,360,000 in Sales Tax Improvement and Refunding Bonds Series 2013 (the Series 2013 Bonds), which bear interest at rates ranging from 2.00 percent to 5.00 percent. The funds were used to refund the remaining obligation on the Series 2001 and 2003 Bonds and fund an expansion project on the District's campus.

The Series 2013 Bonds are secured by a lien on and pledge of the proceeds of a one percent limited sales and use tax levied and collected sufficient to cover the required annual payments of principal and interest of the bonds outstanding. Remaining annual principal payments range from \$560,000 to \$3,595,000 with the final payment due on May 15, 2043. The Series 2013 Bonds having stated maturities on or after May 15, 2023 may be redeemed at the District's option on or after May 15, 2022 at a redemption price of par plus accrued interest to the date of redemption. The Series 2013 Bonds were issued at a premium of \$2,744,119 and the unamortized premium at June 30, 2022 is \$1,849,466.

As a result of the refunding of the Series 2001 and 2003 Bonds, the District recognized a loss of \$131,380 which is included in deferred outflows of resources on the balance sheet and is being amortized over the original term of the related debt. At June 30, 2022, the balance of the deferred loss on refunding is \$57,648.

Bond Indentures

The District is required to maintain a reserve fund equal to the lesser of 1) 1.25 times the average annual debt service requirements for the bonds, 2) the maximum annual requirement for the payment of principal and interest on all bonds then outstanding or 3) 10 percent of the original stated principal of the bonds, which was equal to \$3,777,250 at June 30, 2022. At June 30, 2022, the District had \$3,777,250 to meet these obligations in accordance with the agreement.

The District is also required to maintain an interest and sinking fund in which it must deposit a portion of the sales tax receipts on the first day of each month. The required monthly deposit is 1/12 of the principal payment due on the next ensuing date for payment of principal, plus 1/6 of the interest due on the bonds on the next ensuing date for the payment of interest, which was equal to \$314,650 at June 30, 2022. At June 30, 2022, the District had deposited \$314,650 to meet these obligations in accordance with the agreement.

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Notes to Financial Statements
June 30, 2022

The debt service requirements for bond indentures as of June 30, 2022, are as follows:

| Year Ending June 30, | Total to be Paid | Principal | Interest |
|-----------------------------|-------------------------|----------------------|----------------------|
| 2023 | \$ 3,775,794 | \$ 1,610,000 | \$ 2,165,794 |
| 2024 | 3,771,894 | 1,670,000 | 2,101,894 |
| 2025 | 3,775,594 | 1,740,000 | 2,035,594 |
| 2026 | 3,770,994 | 1,805,000 | 1,965,994 |
| 2027 | 3,770,394 | 1,870,000 | 1,900,394 |
| 2028-2032 | 18,865,600 | 10,445,000 | 8,420,600 |
| 2033-2037 | 18,879,800 | 12,545,000 | 6,334,800 |
| 2038-2042 | 18,874,500 | 15,565,000 | 3,309,500 |
| 2043 | <u>3,774,750</u> | <u>3,595,000</u> | <u>179,750</u> |
| | <u>\$ 79,259,320</u> | <u>\$ 50,845,000</u> | <u>\$ 28,414,320</u> |

Note Payable

In 2021, the District entered into a sales tax anticipation loan agreement with a local bank in the amount of \$404,600. The loan is payable in sixty monthly payments including principal and interest of 3.45 percent. At June 30, 2022, the outstanding balance owed to the bank was \$269,740.

Note 11: Restricted and Designated Net Position

At June 30, 2022, restricted expendable net position were available for the following purposes:

| | |
|-------------------------------|---------------------|
| Scholarships | \$ 90,982 |
| Debt service | 726,148 |
| Medicare advance payments | <u>833,572</u> |
| Total restricted net position | <u>\$ 1,650,702</u> |

Note 12: Pension Plan

Plan Description

Through September 3, 2017, the District sponsored the Plan, an agent multiple-employer defined benefit pension plan that covered eligible employees. The Plan was administered by HealthShare/THA, a wholly owned subsidiary of the Texas Hospital Association. The Plan's assets were invested as a portion of the total HealthShare/THA investment trust fund. Effective September 4, 2017, the District withdrew from the THA pension plan and now sponsors a single-employer defined benefit pension plan (the Nacogdoches Memorial Hospital Defined Benefit Plan). The plan administrator is Principal Financial Group.

Nacogdoches County Hospital District
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Benefit provisions are contained in the plan document and were established and can be amended only with the authority of the Board of the District. The Plan issues a stand-alone financial report that is available at www.nacmem.com.

Effective September 4, 2017, all benefit accruals under the Plan were frozen as was entry into the Plan. All District employees who were classified as permanent, full-time employees prior to September 4, 2017 were eligible to participate in the Plan.

Benefits Provided

The Plan provides retirement, disability, and death benefits. Retirement benefits for certain eligible employees are calculated as a percentage of the employee’s final 5-year average compensation which is based on the employee’s years of service prior to July 1, 2014. The pension is the greater of the amount that can be provided by the vested account balance or, if the participant is eligible, by the final average compensation formula.

Participants with 5 years of vesting service are eligible to retire with reduced benefits at age 55 or unreduced benefits at age 65. Disability retirement benefits are determined in the same manner as retirement benefits but are payable immediately with an actuarial reduction. Death benefits are determined in the same manner as retirement benefits but are payable immediately with an actuarial reduction. An employee who leaves the employer’s service may withdraw his or her contributions, as well as employer matches, plus any accumulated interest.

The terms of the Plan provide for annual cost-of-living adjustments to each employee’s retirement allowance subsequent to the employee’s retirement date. The annual adjustments are equal to the change in the Consumer Price Index, limited to a maximum increase in retirement allowance of 3.5 percent.

The employees covered by the Plan at July 1, 2021 (measurement date), are:

| | |
|--|-------|
| Inactive employees or beneficiaries currently receiving benefits | 264 |
| Inactive employees entitled to but not yet receiving benefits | 546 |
| Active employees | 312 |
| | 1,122 |

Contributions

The District’s governing body had the sole authority to establish and amend the contribution requirements of the active employees. The employer contributions are based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the established 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 employer is required to contribute the difference between the actuarially determined rate and the contribution rate of employees.

There were no employee or employer contributions to the plan for the year ended June 30, 2022.

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Net Pension Liability

The District's net pension liability as of June 30, 2022 was measured as of July 1, 2021, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of July 1, 2021.

The total pension liability in the actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

| | |
|-----------------------------------|---|
| Inflation | 2.5% |
| Salary increases | N/A |
| Ad hoc cost of living adjustments | Not included |
| Investment rate of return | 6.75%, net of pension plan administrative expense |

Mortality rates for the July 1, 2021 actuarial valuation were based on the Society of Actuaries RP-2014 projected from the 2006 base year using Scale MP-2020.

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study for the plan completed as of July 1, 2016.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These components 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 rates of return for each major asset class for 2022 are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return |
|----------------------|--------------------------|---|
| Domestic equity | 36% | 5.42% |
| International equity | 16% | 7.30% |
| Fixed income | 40% | 2.10% |
| Real estate | 8% | 4.30% |
| | <hr/> | |
| Total | <hr/> <hr/> 100% | |

Nacogdoches County Hospital District
Notes to Financial Statements
June 30, 2022

Discount Rate

The discount rate used to measure the total pension liability was 4.99 percent at July 1, 2021. 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 employer 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.

Change in the total pension liability, plan fiduciary net position and the net pension liability are:

| | Total Pension Liability (a) | Plan Fiduciary Net Position (b) | Net Pension Liability (a) - (b) |
|---|--|--|--|
| Balances at June 30, 2021 | \$ 49,135,740 | \$ 44,391,126 | \$ 4,744,614 |
| Changes for the year: | | | |
| Interest on total pension liability | 3,404,835 | - | 3,404,835 |
| Differences between expected and actual experience | (182,448) | - | (182,448) |
| Assumption changes | 12,410,337 | - | 12,410,337 |
| Net investment income | - | 9,856,400 | (9,856,400) |
| Benefit payments, including refunds of employee contributions | (3,297,017) | (3,297,017) | - |
| Administrative expenses | - | (231,838) | 231,838 |
| Net changes | 12,335,707 | 6,327,545 | 6,008,162 |
| Balances at June 30, 2022 | \$ 61,471,447 | \$ 50,718,671 | \$ 10,752,776 |

The net pension liability of the District has been calculated using a discount rate of 4.99 percent at July 1, 2021. The following presents the net pension liability using a discount rate 1 percent higher and 1 percent lower than the current rate at June 30, 2022.

| | 1% Decrease (3.99%) | Current Discount Rate (4.99%) | 1% Increase (5.99%) |
|----------------------------------|--------------------------------|--|--------------------------------|
| District's net pension liability | \$ 18,583,679 | \$ 10,752,776 | \$ 4,348,408 |

Nacogdoches County Hospital District
Notes to Financial Statements
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Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended June 30, 2022, the District recognized pension expense of \$5,091,350. At June 30, 2022, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

| | Deferred Outflows of Resources | Deferred Inflows of Resources |
|--|---|--|
| Differences between expected and actual experience | \$ 168,643 | \$ 91,224 |
| Changes of assumptions | 6,298,135 | - |
| Net difference between projected and actual earnings on pension plan investments | 935,870 | 5,440,053 |
| | \$ 7,402,648 | \$ 5,531,277 |

Amounts reported as deferred outflows of resources at June 30, 2022, related to pensions will be recognized in pension expense as follows:

| | | | | |
|----------------------|------|----|-------------|--|
| Year ending June 30, | | | | |
| | 2023 | \$ | 5,362,691 | |
| | 2024 | | (1,028,781) | |
| | 2025 | | (1,102,525) | |
| | 2026 | | (1,360,014) | |
| | | | 1,871,371 | |

Nacogdoches County Hospital District
Notes to Financial Statements
June 30, 2022

Pension Plan Fiduciary Net Position

As of June 30, 2022 (measurement dates July 1, 2021), the Plan’s fiduciary net position for all employees was comprised of the following:

| | |
|----------------------------------|---------------|
| Separate accounts | \$ 50,718,671 |
| Total investments at fair value | 50,718,671 |
| Total plan fiduciary net pension | \$ 50,718,671 |

The following table reflects the Plan’s investments in single issuers that represent more than 5 percent of total investments:

| | |
|--|-------|
| LargeCap S&P 500 Index Separate Account | 5.6% |
| U.S. Property Separate Account | 8.3% |
| LargeCap Growth Separate Account | 13.0% |
| Equity Income Separate Account | 12.7% |
| Bond Market Index Separate Account | 8.6% |
| Diversified International Separate Account | 7.7% |
| Core Fixed Income Separate Account | 27.9% |

Following is a description of the valuation methodologies and inputs used for pension plan assets measured at fair value on a recurring basis, as well as the general classification of pension plan assets pursuant to the valuation hierarchy.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Plan did not hold any Level 3 securities at July 1, 2021.

At July 1, 2021, all the pension plan assets were invested in separate accounts which are measured at fair value using the net asset value per share (NAV). There were no unfunded commitments or redemption restrictions for these funds.

Nacogdoches County Hospital District
Notes to Financial Statements
June 30, 2022

Note 13: Deferred Compensation Plan

The District sponsors a deferred compensation plan also known as a Section 457 Plan. This plan covers substantially all employees meeting age and service requirements. Employee contributions to the plan are discretionary, and the District does not make any employer contribution. There were no employee contributions for the year ended June 30, 2022.

In 2018, the District started a defined contribution pension plan covering substantially all employees. The board of directors annually determines the amount, if any, of the District's contributions to the plan. Employee contributions to this plan were approximately \$229,000 in 2022. Pension expense was approximately \$59,000 in 2022.

Note 14: Nursing Home Operations

Effective April 1, 2017, the District entered into lease and management agreements with two nursing home operators that resulted in the District becoming the legal operator of five nursing homes. Under the management agreements, the managers provide all services necessary to operate the homes, including employees, supplies, and other operating costs. The managers also provide all billing and collecting services. All patient revenue from the facility is paid to the District. From these collections, the District pays the manager a management fee pursuant to the agreement.

Nursing Home Net Patient Service Revenue

The District has agreements with third-party payers that provide for amounts to the nursing home at amounts different from its established rates. Revenue from Medicare skilled nursing patients are generally paid based on prospectively established per diem rates that are based on patient's acuity. Medicaid and private pay rates are also paid based on per diem rates.

Substantially all of the District's nursing home net patient service revenue for the year ended June 30, 2022 is from participation in the Medicare and state-sponsored Medicaid programs. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Nursing Home Patient Accounts Receivable

The District grants credit without collateral to its nursing home patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at June 30, 2022, primarily consisted of amounts owed from Medicare and Medicaid programs.

Nacogdoches County Hospital District
Notes to Financial Statements
June 30, 2022

Quality Improvement Payment Program

The District began participating in the Quality Improvement Payment Program (QIPP) on September 1, 2017. The program is designed to assist nursing facilities servicing indigent patients by providing funding to support increased access to healthcare within the community. It is also designed to allow participating providers to receive additional reimbursement if they either reach a national benchmark level or they make quarterly improvements in up to four predetermined quality measures.

At June 30, 2022, the District recorded approximately \$1,839,000 of prepaid intergovernmental transfers, which the District is required to contribute as the state share of QIPP funding. Amounts receivable under this program was approximately \$1,227,000 at June 30, 2022, which is included in the estimated amounts due from third-party payers in the balance sheet.

The program described above is subject to review and scrutiny by both the Texas Legislature and CMS and the program could be modified or terminated based on new legislation or regulation in future periods.

Note 15: Contingencies

Litigation

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

Nacogdoches County Hospital District
Notes to Financial Statements
June 30, 2022

Note 16: Condensed Combining Information

The following table includes condensed combining balance sheet information for the District and its blended component unit as of June 30, 2022:

| | District | Foundation | Total |
|--|----------------------|-------------------|----------------------|
| Assets and Deferred Outflows of Resources | | | |
| Current assets | \$ 14,390,765 | \$ 431,016 | \$ 14,821,781 |
| Noncurrent cash and investments | 5,016,452 | - | 5,016,452 |
| Capital assets, net | 40,473,075 | - | 40,473,075 |
| Other noncurrent assets | 289,556 | - | 289,556 |
| Deferred outflows of resources | 7,460,296 | - | 7,460,296 |
| | <u>\$ 67,630,144</u> | <u>\$ 431,016</u> | <u>\$ 68,061,160</u> |
| Liabilities, Deferred Inflows of Resources and Net Position | | | |
| Current liabilities | \$ 17,502,363 | \$ - | \$ 17,502,363 |
| Long-term debt | 51,739,420 | - | 51,739,420 |
| Lease financing obligations | 5,699,074 | - | 5,699,074 |
| Long-term liabilities | 10,752,776 | - | 10,752,776 |
| Deferred inflows of resources | 6,114,050 | - | 6,114,050 |
| | <u>91,807,683</u> | <u>-</u> | <u>91,807,683</u> |
| Net Position | | | |
| Net investment in capital assets | (9,879,514) | - | (9,879,514) |
| Restricted expendable for scholarships | 90,982 | - | 90,982 |
| Restricted expendable for debt service | 726,148 | - | 726,148 |
| Restricted expendable for Medicare advance payments | 833,572 | - | 833,572 |
| Unrestricted | (15,948,727) | 431,016 | (15,517,711) |
| | <u>(24,177,539)</u> | <u>431,016</u> | <u>(23,746,523)</u> |
| Total net position | <u>(24,177,539)</u> | <u>431,016</u> | <u>(23,746,523)</u> |
| Total liabilities, deferred revenue and net position | <u>\$ 67,630,144</u> | <u>\$ 431,016</u> | <u>\$ 68,061,160</u> |

Nacogdoches County Hospital District
Notes to Financial Statements
June 30, 2022

The following table includes condensed combining statements of revenues, expenses and changes in net position information for the District and its blended component unit for the year ended June 30, 2022.

| | District | Foundation | Total |
|--|------------------------|-------------------|------------------------|
| Operating revenues | \$ 29,351,782 | \$ 37,224 | \$ 29,389,006 |
| Operating expenses | <u>46,018,312</u> | <u>22,766</u> | <u>46,041,078</u> |
| Operating income (loss) | (16,666,530) | 14,458 | (16,652,072) |
| Nonoperating revenues, net | <u>8,221,608</u> | <u>(88,552)</u> | <u>8,133,056</u> |
| Deficiency of Revenues Over Expenses Before Special Item | (8,444,922) | (74,094) | (8,519,016) |
| Special item | <u>3,187,653</u> | <u>-</u> | <u>3,187,653</u> |
| Decrease in Net Position | (5,257,269) | (74,094) | (5,331,363) |
| Net position, beginning of year | <u>(18,920,270)</u> | <u>505,110</u> | <u>(18,415,160)</u> |
| Net position, end of year | <u>\$ (24,177,539)</u> | <u>\$ 431,016</u> | <u>\$ (23,746,523)</u> |

The following table includes condensed combining statements of cash flows information for the District and its blended component unit for the year ended June 30, 2022.

| | District | Foundation | Total |
|---|---------------------|-------------------|---------------------|
| Net cash provided by (used in) | | | |
| Operating activities | \$ (7,317,213) | \$ 14,458 | \$ (7,302,755) |
| Noncapital financing activities | 9,118,716 | - | 9,118,716 |
| Capital and related financing | (711,504) | - | (711,504) |
| Investing activities | <u>99,980</u> | <u>(88,552)</u> | <u>11,428</u> |
| Increase (decrease) in cash and restricted cash | 1,189,979 | (74,094) | 1,115,885 |
| Cash and restricted cash, beginning of year | <u>8,358,734</u> | <u>505,110</u> | <u>8,863,844</u> |
| Cash and restricted cash, end of year | <u>\$ 9,548,713</u> | <u>\$ 431,016</u> | <u>\$ 9,979,729</u> |

Nacogdoches County Hospital District

Notes to Financial Statements

June 30, 2022

Note 17: COVID-19 Pandemic & CARES Act Funding

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

Beginning in mid-March 2020, the District deferred all nonessential medical and surgical procedures and suspended elective procedures, which resumed at different dates during the final quarter of fiscal year 2020.

While some of these policies have been eased and states have lifted moratoriums on non-emergent procedures, some restrictions remain in place.

The District's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The District has taken precautionary steps to enhance its operational and financial flexibility, and react to the risks the COVID-19 pandemic presents to its business, including the following:

- Implementation of targeted cost reduction initiatives;
- Reduction of certain planned projects and capital expenditures

In addition, the District received approximately \$7,700,000 of accelerated Medicare payments and approximately \$14,900,000 in general and targeted Provider Relief Fund distributions, both as provided for under the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act).

The extent of the COVID-19 pandemic's adverse effect on the District's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the District's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.

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

Nacogdoches County Hospital District
Notes to Financial Statements
June 30, 2022

Medicare Accelerated and Advanced Payment Program

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

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

During the year ended June 30, 2020, the District received approximately \$7,700,000 from these accelerated Medicare payment requests. During the year ended June 30, 2022, Medicare has applied approximately \$5,621,000 from these accelerated Medicare payment requests against filed claims. As of June 30, 2022, \$807,000 of accelerated Medicare payment requests are recorded as current liabilities under the caption Medicare Advance Payments in the accompanying balance sheet.

Note 18: Subsequent Events

In October 2023, the District issued Lion Star a notice of default based on refusal or inability to pay debts. Subsequently in November 2023, Lion Star filed for bankruptcy and a court date is set for early 2024 to determine future operations of the Hospital.

**Required Supplementary Information
(Unaudited)**

Nacogdoches County Hospital District
Schedule of Changes in District's Net Position Liability and Related Ratios
Year Ending June 30,

| | 2022 | 2021 | 2020 | 2019 | 2018 | 2017 | 2016 | 2015 |
|---|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Total pension liability | | | | | | | | |
| Service cost | \$ - | \$ - | \$ - | \$ 1,044,000 | \$ 1,133,000 | \$ 1,370,000 | \$ 1,658,000 | \$ 1,586,000 |
| Interest on total pension liability | 3,405,000 | 3,377,000 | 3,427,000 | 3,963,000 | 3,909,000 | 3,821,000 | 3,785,000 | 3,537,000 |
| Differences between expected and actual experience | (182,000) | 506,000 | (753,000) | (3,732,000) | 90,000 | 708,000 | 454,000 | (302,000) |
| Changes of assumptions | 12,410,000 | 279,000 | (80,000) | - | 211,000 | (172,000) | 1,453,000 | 1,828,000 |
| Changes of benefit terms | - | - | - | (3,232,000) | - | - | - | - |
| Benefit payments, including refunds of employee contributions | (3,297,000) | (3,220,000) | (3,327,000) | (5,463,000) | (3,563,000) | (4,330,000) | (4,737,000) | (2,172,000) |
| Administration and investment expense | - | - | - | - | - | (290,000) | (289,000) | - |
| Net change in total pension liability | 12,336,000 | 942,000 | (733,000) | (7,420,000) | 1,780,000 | 1,107,000 | 2,324,000 | 4,477,000 |
| Total pension liability—beginning | 49,135,000 | 48,193,000 | 48,926,000 | 56,346,000 | 54,566,000 | 53,459,000 | 51,135,000 | 46,658,000 |
| Total pension liability—ending (a) | \$ 61,471,000 | \$ 49,135,000 | \$ 48,193,000 | \$ 48,926,000 | \$ 56,346,000 | \$ 54,566,000 | \$ 53,459,000 | \$ 51,135,000 |
| Plan fiduciary net position | | | | | | | | |
| Contributions—employer | \$ - | \$ - | \$ - | \$ 336,000 | \$ 1,972,000 | \$ 1,701,000 | \$ 1,628,000 | \$ 1,451,000 |
| Contributions—employee | - | - | - | 155,000 | 869,000 | 853,000 | 827,000 | 1,137,000 |
| Net investment income | 9,856,000 | 1,919,000 | 2,885,000 | 3,255,000 | 5,936,000 | 329,000 | 1,988,000 | 7,527,000 |
| Benefit payments, including refunds of employee contributions | (3,297,000) | (3,220,000) | (3,327,000) | (5,463,000) | (3,563,000) | (4,330,000) | (4,737,000) | (2,172,000) |
| Administrative expense | (231,000) | (287,000) | (230,000) | (221,000) | (288,000) | (290,000) | (289,000) | (333,000) |
| Net change in plan fiduciary net position | 6,328,000 | (1,588,000) | (672,000) | (1,938,000) | 4,926,000 | (1,737,000) | (583,000) | 7,610,000 |
| Plan fiduciary net position—beginning | 44,390,000 | 45,978,000 | 46,650,000 | 48,588,000 | 43,662,000 | 45,399,000 | 45,982,000 | 38,372,000 |
| Plan fiduciary net position—ending (b) | \$ 50,718,000 | \$ 44,390,000 | \$ 45,978,000 | \$ 46,650,000 | \$ 48,588,000 | \$ 43,662,000 | \$ 45,399,000 | \$ 45,982,000 |
| District's net pension liability—ending (a) – (b) | \$ 10,753,000 | \$ 4,745,000 | \$ 2,215,000 | \$ 2,276,000 | \$ 7,758,000 | \$ 10,904,000 | \$ 8,060,000 | \$ 5,153,000 |
| Plan fiduciary net position as a percentage of the total pension liability | 82.51% | 90.34% | 95.40% | 95.35% | 86.23% | 80.02% | 84.92% | 89.92% |
| Covered Payroll | N/A | N/A | N/A | N/A | \$ 32,037,126 | \$ 34,848,000 | \$ 30,057,000 | \$ 30,743,000 |
| District's net pension liability as a percentage of covered payroll | N/A | N/A | N/A | N/A | 24.22% | 31.29% | 26.82% | 16.76% |

*Note: This is a 10-year schedule. Years after 6/30/22 are to be added as they become available

Nacogdoches County Hospital District
Schedule of District Contributions
Year Ending June 30,

| Year Ending June 30, | Actuarially determined contribution | Contributions in relation to the actuarially determined contribution | Contribution deficiency | Covered payroll (1) | Contributions as a percentage of covered payroll |
|-------------------------|---|--|----------------------------|------------------------|--|
| 2022 | \$ 428,000 | \$ - | \$ 428,000 | N/A | N/A |
| 2021 | \$ 628,000 | \$ - | \$ 628,000 | N/A | N/A |
| 2020 | \$ 450,000 | \$ - | \$ 450,000 | N/A | N/A |
| 2019 | \$ 587,000 | \$ - | \$ 587,000 | N/A | N/A |
| 2018 | \$ 1,813,000 | \$ 336,000 | \$ 1,477,000 | \$ 32,037,000 | 1.0% |
| 2017 | \$ 1,972,000 | \$ 1,972,000 | \$ - | \$ 34,848,000 | 5.7% |
| 2016 | \$ 1,701,000 | \$ 1,701,000 | \$ - | \$ 30,057,000 | 5.7% |
| 2015 | \$ 1,628,000 | \$ 1,628,000 | \$ - | \$ 30,743,000 | 5.7% |

Notes to Schedule:

Valuation Date: Years ended July 1,

Methods and assumptions used to determine contribution rates:

| | |
|-------------------------------|--|
| Actuarial cost method | Entry age |
| Amortization method | 20 year level dollar amortization of Unfunded Liability bases |
| Remaining amortization period | 19 |
| Asset valuation method | 3-year smoothed market |
| Inflation | 2.5% |
| Salary increases | Not applicable |
| Investment rate of return | 7.25%, net of pension plan investment expense, including inflation |
| Retirement age | 63 (average) |
| Mortality | SOA RP - 2014 projected from the 2006 base year using Scale MP-2019 generational mortality improvement rates |

**Note: This is a 10-year schedule. Years after 6/30/22 are to be added as they become available*