

**GOODALL-WITCHER HOSPITAL AUTHORITY  
CLIFTON, TEXAS**

**For the Years Ended June 30, 2019 and 2018**



## INDEPENDENT AUDITOR'S REPORT

Board of Directors and Management  
Goodall-Witcher Hospital Authority  
Clifton, Texas

We have audited the accompanying financial statements of Goodall-Witcher Hospital Authority, as of and for the years ended June 30, 2019 and 2018, and the related notes to the financial statements, which collectively comprise Goodall-Witcher Hospital Authority's statements of net position, and the related statements of revenues, expenses and changes in net position and cash flows.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Goodall-Witcher Hospital Authority'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 Goodall-Witcher Hospital Authority'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 Goodall-Witcher Hospital Authority, as of June 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 on pages A-1 through A-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

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

*Durbin & Company, L.L.P.*

Durbin & Company, L.L.P.  
Lubbock, Texas  
November 19, 2019

**GOODALL-WITCHER HOSPITAL AUTHORITY  
CLIFTON, TEXAS**

**Management's Discussion and Analysis**

**For the Years Ended June 30, 2019 and 2018**

# GOODALL-WITCHER HOSPITAL AUTHORITY

## UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS AND FINANCIAL STATEMENTS

Our discussion and analysis of Goodall-Witcher Hospital Authority's (the "Authority") financial performance provides an overview of the Authority's financial activities for the years ended June 30, 2019 and 2018. Please read it in conjunction with the Authority's financial statements, which begin on page 1.

### FINANCIAL HIGHLIGHTS

- The Authority's net position reflects a \$522,859 or 75.9% increase in 2019. Fiscal year 2018 net position decreased (\$708,211) or (50.7%).
- Net patient service revenue increased by \$1,422,155 or 7.8% in 2019, compared to 2018, and increased by \$1,845,437 or 11.2% in 2018, compared to 2017.
- The Authority reported an operating loss of (\$1,575,548) in 2019 and an operating loss of (\$1,727,277) in 2018. The operating loss had an unfavorable increase of \$151,729 or 8.8% over the loss reported in 2018.
- Nonoperating revenues (expenses) increased by \$1,154,341 or 122.3% in 2019, compared to 2018, and decreased by (\$661,966) or (41.2%) in 2018, compared to 2017.

### USING THIS ANNUAL REPORT

The Authority's financial statements consist of three statements, 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 Authority, including resources held by the Authority 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 Authority's finances begins on page A-2. One of the most important questions asked about the Authority's finances is, "Is the Authority 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 Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

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

**GOODALL-WITCHER HOSPITAL AUTHORITY  
UNAUDITED MANAGEMENT’S DISCUSSION AND ANALYSIS  
AND FINANCIAL STATEMENT (CONTINUED)**

need to consider other nonfinancial factors; however, such as changes in the Authority’s patient base and measures of the quality of service it provides to the community, as well as local economic factors to access the overall health of the Authority.

**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 AUTHORITY’S NET POSITION**

The Authority’s net position is the difference between its assets and liabilities reported in the Statement of Net Position on page 2. The Authority’s net position increased by \$522,859 or 75.9% in 2019, and decreased by (\$708,211) or (50.7%) in 2018, as you can see from **Table 1**.

**Table 1: Assets, Liabilities, and Net position**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Assets:			
Current Assets	\$ 7,436,639	\$ 7,241,691	\$ 7,749,692
Capital Assets (net)	<u>618,969</u>	<u>712,698</u>	<u>619,080</u>
Total Assets	<u>\$ 8,055,608</u>	<u>\$ 7,954,389</u>	<u>\$ 8,368,772</u>
Liabilities:			
Long-Term Debt Outstanding	\$ 102,390	\$ 142,421	\$ 148,177
Other Current and Non-Current	<u>6,741,196</u>	<u>7,122,805</u>	<u>6,823,221</u>
Total Liabilities	6,843,586	7,265,226	6,971,398
Net Position			
Net Investment in Capital Assets	516,579	570,277	470,903
Restricted:			
Collateral for Bank Notes	608,622	606,589	604,712
Unrestricted	<u>86,821</u>	<u>(487,703)</u>	<u>321,759</u>
Total Net Position	<u>1,212,022</u>	<u>689,163</u>	<u>1,397,374</u>
Total Liabilities and Net Position	<u>\$ 8,055,608</u>	<u>\$ 7,954,389</u>	<u>\$ 8,368,772</u>

**GOODALL-WITCHER HOSPITAL AUTHORITY  
UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS  
AND FINANCIAL STATEMENT (CONTINUED)**

**OPERATING RESULTS AND CHANGES IN THE AUTHORITY'S NET POSITION**

The Authority's net position increased by \$522,859 or 75.9% in 2019 and decreased (\$708,211) or (50.7%) in 2018. This change is made up of different components, as shown in **Table 2**.

**Table 2: Operating Results and Changes in Net Position**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Operating Revenues:			
Net Patient Service Revenue	\$19,754,677	\$18,332,522	\$16,487,085
Nursing Home Revenue	18,389,429	17,702,263	17,859,904
Delivery System Reform Incentive Program	736,648	1,004,161	949,429
Electronic Health Records Incentive Revenue	13,818	61,650	365,148
Other Revenue	<u>1,038,598</u>	<u>824,369</u>	<u>489,665</u>
Total Operating Revenue	39,933,170	37,924,965	36,151,231
Operating Expenses:			
Salaries and Benefits	12,559,063	11,483,585	10,386,768
Other Operating Expenses	10,536,138	10,423,235	9,761,653
Nursing Home	18,295,199	17,635,265	18,432,038
Depreciation / Amortization	<u>118,318</u>	<u>110,157</u>	<u>315,213</u>
Total Operating Expenses	<u>41,508,718</u>	<u>39,652,242</u>	<u>38,895,672</u>
Operating Loss	(1,575,548)	(1,727,277)	(2,744,441)
Nonoperating Revenues (Expenses):			
Noncapital Grants / Contributions	2,149,668	1,002,629	1,761,358
Community Benefit Support	-	-	2,307,499
Intergovernmental Transfer Expense	-	-	(2,399,016)
Investment Income	3,050	2,055	2,576
Interest Expense	<u>(54,311)</u>	<u>(60,618)</u>	<u>(66,385)</u>
Total Nonoperating Revenues (Expenses)	2,098,407	944,066	1,606,032
Capital Grants and Contributions	<u>-</u>	<u>75,000</u>	<u>-</u>
Increase in Net Position	522,859	(708,211)	(1,138,409)
Net Position, Beginning of Year	<u>689,163</u>	<u>1,397,374</u>	<u>2,535,783</u>
Net Position, End of Year	<u>\$ 1,212,022</u>	<u>\$ 689,163</u>	<u>\$ 1,397,374</u>

**GOODALL-WITCHER HOSPITAL AUTHORITY  
UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS  
AND FINANCIAL STATEMENT (CONTINUED)**

**Operating Losses**

The first component of the overall change in the Authority's net position is its operating loss - generally, the difference between net patient service revenues and the expenses incurred to perform those services. The Authority reported an operating loss in 2019 of (\$1,575,548) and an operating loss in 2018 of (\$1,727,277). The Authority was incorporated as a municipal Hospital Authority under the laws of the State of Texas on September 28, 2012 with operations beginning December 1, 2012. Additionally, the Authority entered into a lease agreement with Goodall-Witcher Healthcare Foundation for the lease of all assets owned or leased by the Foundation to be used for Hospital purposes. Changes in reimbursement rates, payment schedules and fluctuations in payments for inpatient and outpatient services, utilization by the medical staff, and other factors have impacted the operating loss for the years ended June 30, 2019 and 2018.

The Authority acquired certain assets and liabilities as a result of the asset purchase agreement with the net difference of \$1,763,383 beginning working capital and a note payable back to Goodall-Witcher Healthcare Foundation. Additionally, the Authority pays monthly rent to the Foundation in the amount of \$137,230.

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

- A decrease in Delivery System Reform Incentive Program of (\$267,513) or (26.6%).
- An increase in Salaries and Benefits of \$1,075,478 or 9.4%.

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

- An increase in Net Patient Service Revenue of \$1,845,437 or 11.2%.
- An increase in Other Revenue of \$334,704 or 68.4%.

The future of net revenues is almost impossible to predict since the Authority relies on reimbursement from Medicare, Medicaid and other Third-Party payors, local population trends, economy, and other factors.

**Nonoperating Revenues and Expenses**

Nonoperating revenues and expenses consist primarily of non-capital grants and contributions. Noncapital grants and contributions in 2019 and 2018 were \$2,149,668 and \$1,002,629, respectively. Of the total contributions, \$2,140,008 and \$994,000 were donations from Goodall-Witcher Healthcare Foundation for the years ended June 30, 2019 and 2018, respectively.



**GOODALL-WITCHER HOSPITAL AUTHORITY  
UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS  
AND FINANCIAL STATEMENT (CONTINUED)**

**THE AUTHORITY'S CASH FLOWS**

Changes in the Authority's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses previously discussed.

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At June 30, 2019 and 2018, the Authority had \$618,969 and \$712,698, respectively, invested in capital asset, net of accumulated depreciation, as detailed in Note 10 of the financial statements. The Authority purchased \$24,589 and \$203,775 in capital assets in fiscal years 2019 and 2018, respectively.

**Debt**

At June 30, 2019 and 2018, the Authority had \$1,109,000 and \$1,462,000, respectively, in notes payable outstanding as detailed in Note 11 of the financial statements. The Authority incurred \$137,000 and \$2,190,000 of additional notes payable during fiscal years 2019 and 2018, respectively. During fiscal years 2019 and 2018, the Authority made payments of \$490,000 and \$1,728,000, respectively, on outstanding notes payable.

At June 30, 2019 and 2018, the Authority had \$102,390 and \$142,421, respectively, in long-term debt outstanding as detailed in Note 12 of the financial statements. The Authority incurred \$-0- and \$28,684 of additional long-term debt during fiscal years 2019 and 2018, respectively. During fiscal years 2019 and 2018, the Authority made payments of \$40,031 and \$34,440, respectively, on outstanding long-term debt.

**Due to Goodall-Witcher Healthcare Foundation**

At June 30, 2019 and 2018, the Authority had no outstanding amounts due to Goodall-Witcher Healthcare Foundation (GWHF) as detailed in Note 18 of the financial statements. During fiscal year 2018, the Authority made payments of \$274,033 on outstanding amounts due to GWHF. During fiscal years 2019 and 2018, no additional amounts due to GWHF were incurred by the Authority.

**CONTACTING THE AUTHORITY'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact, Adam Willmann, President/CEO at Goodall-Witcher Hospital Authority, 101 S. Avenue T, Clifton, Texas 76634.

**GOODALL-WITCHER HOSPITAL AUTHORITY  
CLIFTON, TEXAS**

**Financials**

**For the Years Ended June 30, 2019 and 2018**

GOODALL-WITCHER HOSPITAL AUTHORITY

STATEMENTS OF NET POSITION

JUNE 30, 2019 AND 2018

ASSETS:	<u>2019</u>	<u>2018</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 148,174	\$ 116,867
Restricted Assets - Current	608,622	606,589
Assets Whose Use is Limited	93,824	24,891
Patient Accounts Receivable, Net of Allowance	2,072,726	1,964,880
Accounts Receivable - Nursing Home	3,160,240	3,608,243
Estimated Third-Party Payor Settlements	215,004	130,052
Other Receivables	695,132	442,088
Inventory of Supplies	124,537	149,393
Prepaid and Other Current Assets	<u>318,380</u>	<u>198,688</u>
Total Current Assets	7,436,639	7,241,691
CAPITAL ASSETS,		
Net of Accumulated Depreciation	<u>618,969</u>	<u>712,698</u>
Total Assets	<u>\$ 8,055,608</u>	<u>\$ 7,954,389</u>

The accompanying notes are an integral part of these financial statements.

**GOODALL-WITCHER HOSPITAL AUTHORITY**

**STATEMENTS OF NET POSITION**

**JUNE 30, 2019 AND 2018**

<b>LIABILITIES AND NET POSITION:</b>	<u>2019</u>	<u>2018</u>
<b>CURRENT LIABILITIES</b>		
Notes Payable	\$ 1,109,000	\$ 1,462,000
Current Portion of Long-Term Debt	40,973	40,973
Accounts Payable	2,106,072	2,397,247
Accounts Payable - Nursing Home	2,379,645	2,191,848
Accrued Payroll, Benefits, and Related Liabilities	880,389	794,249
Self Funded Health Insurance	40,000	40,000
Estimated Third-Party Payor Settlements	-	148,532
Other Accrued Liabilities	<u>226,090</u>	<u>88,929</u>
Total Current Liabilities	6,782,169	7,163,778
<b>NONCURRENT LIABILITIES</b>		
Long-Term Debt, Net of Current Portion	<u>61,417</u>	<u>101,448</u>
Total Liabilities	6,843,586	7,265,226
<b>NET POSITION</b>		
Net Investment in Capital Assets	516,579	570,277
Restricted:		
Collateral for Bank Notes	608,622	606,589
Unrestricted	<u>86,821</u>	<u>(487,703)</u>
Total Net Position	<u>1,212,022</u>	<u>689,163</u>
Total Liabilities and Net Position	<u>\$ 8,055,608</u>	<u>\$ 7,954,389</u>

The accompanying notes are an integral part of these financial statements.

**GOODALL-WITCHER HOSPITAL AUTHORITY**

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

**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
<b>OPERATING REVENUES:</b>		
Net Patient Service Revenue	\$ 19,754,677	\$ 18,332,522
Nursing Home Revenue	18,389,429	17,702,263
Delivery System Reform Incentive Program	736,648	1,004,161
Electronic Health Records Incentive Revenue	13,818	61,650
Other Revenue	1,038,598	824,369
Total Operating Revenues	39,933,170	37,924,965
<b>OPERATING EXPENSES:</b>		
Salaries and Wages	10,612,365	9,634,865
Employee Benefits	1,946,698	1,848,720
Professional Fees and Purchased Services	5,018,684	4,835,763
Supplies and Other	5,517,454	5,587,472
Nursing Home	18,295,199	17,635,265
Depreciation and Amortization	118,318	110,157
Total Operating Expenses	41,508,718	39,652,242
Operating Loss	(1,575,548)	(1,727,277)
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Noncapital Grants and Contributions	2,149,668	1,002,629
Investment Income	3,050	2,055
Interest Expense	(54,311)	(60,618)
Total Nonoperating Revenues (Expenses)	2,098,407	944,066
Excess of Revenues Over Expenses Before Capital Grants and Contributions	522,859	(783,211)
Capital Grants and Contributions	-	75,000
Increase (Decrease) in Net Position	522,859	(708,211)
Net Position, Beginning of Year	689,163	1,397,374
Net Position, End of Year	\$ 1,212,022	\$ 689,163

The accompanying notes are an integral part of these financial statements.

**GOODALL-WITCHER HOSPITAL AUTHORITY**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Receipts from and on Behalf of Patients	\$ 38,278,483	\$ 35,711,018
Payments to Suppliers and Contractors	(28,920,094)	(28,137,560)
Payments to Employees	(12,472,923)	(11,375,856)
Other Receipts and Payments, net	1,536,020	1,516,722
Net Cash Provided (Used) by Operating Activities	(1,578,514)	(2,285,676)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment Earnings	3,050	2,055
Purchase of Investments	(2,033)	(1,877)
Net Cash Provided by Investing Activities	1,017	178
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Capital Grants and Contributions	-	75,000
Principal Payments on Long-Term Debt	(40,031)	(34,440)
Interest Payments on Long-Term Debt	(9,600)	(7,781)
Purchase of Capital Assets	(24,589)	(175,091)
Net Cash Used by Capital and Related Financing Activities	(74,220)	(142,312)
<b>CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Noncapital Grants and Contributions	2,149,668	1,002,629
Proceeds from Issuance of Notes Payable	137,000	2,190,000
Principal Payments on Notes Payable	(490,000)	(1,728,000)
Interest Payments on Notes Payable	(44,711)	(52,837)
Net Cash Provided (Used) by Noncapital Financing	1,751,957	1,411,792
Net Increase (Decrease) in Cash and Cash Equivalents	100,240	(1,016,018)
Cash and Cash Equivalents, Beginning of Year	141,758	1,157,776
Cash and Cash Equivalents, End of Year	\$ 241,998	\$ 141,758

The accompanying notes are an integral part of these financial statements.

**GOODALL-WITCHER HOSPITAL AUTHORITY**

**STATEMENTS OF CASH FLOWS (CONTINUED)**

**FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	2019	2018
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION:		
Cash and cash equivalents presented under the following titles:		
Cash and Cash Equivalents	\$ 148,174	\$ 116,867
Assets Whose Use is Limited - Current	93,824	24,891
	\$ 241,998	\$ 141,758

RECONCILIATION OF OPERATING LOSS TO NET CASH  
PROVIDED (USED) BY OPERATING ACTIVITIES:

Operating Loss	\$ (1,575,548)	\$ (1,727,277)
Adjustments to Reconcile Operating Loss to Net		
Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	118,318	110,157
Provision for Bad Debts	2,034,400	3,766,643
(Increase) Decrease in:		
Accounts Receivable	(2,142,246)	(4,068,298)
Accounts Receivable - Nursing Home	448,003	(1,272,068)
Prepaid Expenses and Other Current Assets	(347,880)	787,145
Estimated Third-Party Payor Settlements	(233,484)	428,970
Increase (Decrease) in:		
Accounts Payable	(291,175)	846,475
Accounts Payable - Nursing Home	187,797	(902,567)
Accrued Salaries and Benefits Payable	86,140	81,812
Payable to Goodall-Witcher Healthcare Foundation	-	(274,033)
Other Accrued Liabilities	137,161	(62,635)
	\$ (1,578,514)	\$ (2,285,676)
Net Cash Provided (Used) by Operating Activities		

**Supplemental Disclosure of Noncash Investing and Financing Activities**

New Obligations Under Capital Leases	\$ -	\$ 28,684
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The accompanying notes are an integral part of these financial statements.

**GOODALL-WITCHER HOSPITAL AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** - The Goodall-Witcher Hospital Authority (the “Authority”) a municipal hospital authority, was incorporated under the laws of the State of Texas on September 28, 2012. As discussed in Footnote 18, the Authority leased the operations of the hospital from Goodall-Witcher Healthcare Foundation. The Authority operations consist of operating an acute care hospital, nursing and rehabilitation center, home health agency, rural health clinic, and three additional nursing facilities for which the Authority has contracted with outside management to manage daily operations. Operations of the Authority began on December 1, 2012, and are administered through a Board of Directors appointed by the City Council of the City of Clifton. The Authority provides inpatient and outpatient services as well as other affiliated services to the community. The Authority prepares its financial statements in accordance with generally accepted accounting principles.

The accompanying financial statements include the accounts of Goodall-Witcher Hospital Authority and the following nursing home and rehabilitation facilities; Jeffrey Place Healthcare Center, Regency Manor Healthcare Center, Sunset Home and Goodall-Witcher Nursing Facility. The transactions and balances between the entities have been eliminated.

**Enterprise Fund Accounting** – The Authority uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. The Authority 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 Pronouncements*. The Authority has also elected to apply the provisions of Government Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

**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. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.



**GOODALL-WITCHER HOSPITAL AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**New Pending Accounting Pronouncements**

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

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

**GASB Statement No. 90** – In June 2018, GASB issued GASB Statement No. 90 – *Majority Equity Interests*. The objective of this Statement is 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. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The Statement is effective for periods beginning after December 15, 2018. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

**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.

**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.

**GOODALL-WITCHER HOSPITAL AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 Authority considers highly liquid investments with an original maturity of three months or less to be cash equivalents, excluding amounts whose use is limited by board designation or other arrangements under trust agreements or with third-party payors.

**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, and trends in historical write-off experience, specific impaired accounts, and economic conditions. Allowances for uncollectibles and contractuals 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 using the First-In, First-Out (FIFO) method.

**Assets Whose Use is Limited** - Assets whose use is limited include assets set aside by the board of directors to be used for its designated purpose over which the board retains control and may at its discretion subsequently use for other purposes.

**Capital Assets** - Capital assets are carried at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. 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 these assets. The Authority has elected to capitalize expenditures over \$5,000 and provide for depreciation of capital assets by the straight-line method at rates promulgated by the American Hospital Association, which are designed to amortize the cost of such equipment over its useful life as follows:

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

**GOODALL-WITCHER HOSPITAL AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Net Position** – Net position of the Authority is classified in four components. Net position invested in capital assets consists 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 expendable net position, if any, is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors, or contributors external to the Authority, including amounts deposited with trustees as required by revenue bond indentures. Restricted nonexpendable net position equals the principal portion of permanent endowments. Unrestricted net position is the remaining net position that does not meet the definition of invested in capital assets or restricted.

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

**Federal Income Taxes** – The Authority is a governmental entity 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 Authority 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 disaster; and employee health, dental, and accidental benefits. Commercial insurance coverage is purchased for claims arising from such matters, with the exception of employee health coverage for which the Authority is partially self-insured. Settled claims have not exceeded the commercial coverage during the year.

**Charity Care** – The Authority provides charity care to patients without financial means to pay for healthcare services that have been provided. Charity care is provided to all patients who present themselves for care at Goodall-Witcher Hospital Authority without regard to race, creed, color, or national origin and who are classified as financially indigent or medically indigent according to the Authority’s eligibility system. To be eligible for charity care as financially indigent, a person’s income shall be at or below 200 percent of the federal poverty guidelines. The Authority uses the most current poverty income guidelines issued by the U.S. Department of Health and Human Services. To be eligible for charity care as medically indigent, a person’s medical or Authority bills after payment by third-party payors must exceed a specified percentage of the person’s annual gross income and who is unable to pay the remaining bill. Because the Authority does not pursue the collection of amounts determined to qualify as charity care, charity care is excluded from net patient revenue.

**GOODALL-WITCHER HOSPITAL AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

**Reclassifications** – Certain amounts have been reclassified in the 2018 financial statements to conform to the 2019 financial statement presentation. These reclassifications had no effect on the change in net position.

**NOTE 2 - NET PATIENT SERVICE REVENUE**

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Effective September 9, 2015, the Authority received approval from Centers for Medicare & Medicaid Services (CMS) for participation in the Medicare program as a critical access hospital (CAH). With the approval of the Authority as a CAH, its participation as a Sole Community Hospital was terminated effective September 8, 2015. A summary of the payment arrangements with major third-party payors follows:

**Medicare and Medicaid** – For the period July 1, 2015 through September 8, 2015 and for the year ended June 30, 2015, inpatient acute care services, rehabilitation services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. Inpatient skilled nursing services and distinct part unit psychiatric services are paid at prospectively determined per-diem rates that are based on the patient's acuity. Effective September 9, 2015, the Authority became a Critical Access Hospital. Thus, inpatient acute care services, certain inpatient non-acute services, and outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Authority is reimbursed for cost reimbursable items at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare fiscal intermediary.

**Other** - The Authority 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.

**GOODALL-WITCHER HOSPITAL AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

**NOTE 2 - NET PATIENT SERVICE REVENUE (CONTINUED)**

Net patient service revenue is comprised as follows:

	<u>2019</u>	<u>2018</u>
Routine Patient Services	\$ 1,964,863	\$ 1,836,273
Ancillary Patient Services		
Inpatient	6,973,541	6,602,130
Outpatient	<u>33,759,988</u>	<u>33,079,183</u>
Gross Patient Service Revenue	42,698,392	41,517,586
Charity	(3,550,957)	(1,659,351)
Third-Party Contractual Adjustments	(18,476,821)	(18,582,989)
Provision for Bad Debts	(2,034,400)	(3,766,643)
Medicaid Disproportionate Share and Other Credits	<u>1,118,463</u>	<u>823,919</u>
Net Patient Service Revenue	<u><u>\$19,754,677</u></u>	<u><u>\$18,332,522</u></u>

**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 Authority. Estimated third-party payor settlements recorded in current assets at June 30, 2019 and 2018 are \$215,004 and (\$18,480), respectively.

**Charity Care** - The value of charity care provided by the Authority based upon its established rates, was \$3,550,957 in 2019 and \$1,659,351 in 2018. ASU 2010-23 requires charity care to be disclosed on a cost basis. The Authority utilizes the cost to charge ratios, as calculated based on its most recent cost report, to determine the total cost. The Authority's cost of providing charity care was approximately \$1,900,000 and \$860,000 for the years ended June 30, 2019 and 2018, respectively.

**NOTE 3 – SECTION 1115 DEMONSTRATION WAIVER PROGRAM**

**Uncompensated Care** - The Authority participates in the Section 1115 Demonstration Waiver Program, a program designed to benefit rural community hospitals. This program is facilitated through the Authority providing an intergovernmental transfer whereby federal matching funds are provided to supplement the Authority for the shortfall in Medicaid funding. In connection with this program, the Authority provided intergovernmental transfers of \$289,099 and \$89,058, and received \$673,617 and \$204,118 for the years ended June 30, 2019 and 2018, respectively. The Authority recognized net revenue of \$384,519 and \$115,060 for the years ended June 30, 2019 and 2018, respectively. The respective revenue is included in net patient service revenue in the statements of revenues, expenses, and changes in net position.

**GOODALL-WITCHER HOSPITAL AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

**NOTE 3 – SECTION 1115 DEMONSTRATION WAIVER PROGRAM (CONTINUED)**

**Delivery System Reform Incentive Program** - As part of the Section 1115 Demonstration Waiver Program, the Authority is eligible to receive incentive payments through the Delivery System Reform Incentive Payment Program (DSRIP). This incentive program is designed to improve the experience of care, improve the health of populations, and containing costs. By participating in the DSRIP Program, the Authority provides an intergovernmental transfer to finance the non-federal share of the incentive payments. In connection with this program, the Authority provided intergovernmental transfers of \$532,906 and \$765,890, and received \$1,274,588 and \$1,769,953 for the years ended June 30, 2019 and 2018, respectively. Additionally, the Authority recorded a net receivable of \$387,362 and \$177,502 at June 30, 2019 and 2018, respectively. The Authority recognized net revenue of \$736,648 and \$1,004,161 for the years ended June 30, 2019 and 2018, respectively. The respective revenue is included in operating revenues in the statements of revenues, expenses, and changes in net position.

**NOTE 4 – NURSING HOME OPERATIONS**

The Authority has entered into operations and transfer agreements with three skilled nursing facilities which transferred the operations and certain operating assets of each facility. The Authority has also received an assignment or transfer of the Medicare and Medicaid Provider agreements for each facility. In addition to the transfer agreement, the Authority has also entered into a lease agreement with each facility for the lease of real property and fixed assets and associated equipment that encompass the nursing homes' physical property. The lease terms expire at various dates through August 31, 2020, unless sooner terminated.

The total rental expense paid to all facilities was \$1,480,800 as of June 30, 2019 and 2018, respectively. Also in connection with this transfer agreement, the Authority has recorded all patient revenue and the related accounts receivable. The Authority has recorded \$18,389,429 and \$17,702,263 in patient related revenue for the years ended June 30, 2019 and 2018. These revenues are recorded as Nursing Home revenue on the statements of revenues and expenses and changes in net position. Each facility is managed by a third-party in which the Authority pays monthly and/or quarterly fees. These fees, including rental expense, totaled \$18,295,199 and \$17,635,265 for the years ended June 30, 2019 and 2018. These expenses are recorded in Nursing Home expenses on the statements of revenues, expenses and changes in net position. Amounts due and unpaid as of June 30, 2019 and 2018 for these expenses are \$2,379,645 and \$2,191,848.

**Quality Incentive Payment Program** – During its 84<sup>th</sup> session, the Texas Legislature directed HHSC to transition 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 2017, the Authority transferred \$788,216 to HHSC via an IGT for use as the state share of payments for the period covering March 1, 2017 through August 31, 2018.

**GOODALL-WITCHER HOSPITAL AUTHORITY  
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
 FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

**NOTE 4 – NURSING HOME OPERATIONS (CONTINUED)**

During 2018, the Authority transferred \$771,609 to HHSC via an IGT for use as the state share of payments for the period covering September 1, 2018 through February 28, 2019. The respective period IGT is recorded in other receivables in the statement of net position as of June 30, 2018.

During 2019, the Authority transferred an additional \$291,656 to HHSC via an IGT for use as the state share of payments for the period covering March 1, 2019 through August 31, 2019 and \$370,919 for the period covering September 1, 2019 through February 28, 2020. As of June 30, 2019 and 2018, the Authority recorded a receivable of \$1,003,571 and \$1,619,818 for the remaining payments to be received, respectively. The Authority recognized net revenue of \$745,544 and \$455,193 for the years ended June 30, 2019 and 2018, respectively.

**NOTE 5 – MEDICAID DISPROPORTIONATE SHARE FUNDS**

The Indigent Health Care and Treatment Act, passed by the 69<sup>th</sup> Texas Legislature in 1985, first apportioned funds to the Texas Department of Human Services (DHS) to provide assistance to hospitals providing a disproportionate share (DSH) of inpatient indigent health care. The State of Texas created a mechanism whereby intergovernmental transfers were made between selected district hospitals to generate additional federal matching funds. Hospitals participating in the Medicaid program that meet the conditions of participation and that serve a disproportionate share of low-income patients as defined by state law are eligible for additional reimbursement from the disproportionate share hospital fund. There are direct and implied expectations regarding the purposes of this funding. The focus of the funds is to benefit the health care needs of the medically indigent, including recipient of Medicaid benefits, those eligible for Medicaid benefits, the uninsured poor, and others for whom the cost of medical and hospital care has exceeded their ability to pay. However, state and federal law offer considerable flexibility to recipient hospitals regarding specific use of the funds. During 2019 and 2018, the Authority recorded \$131,391 and \$253,666, respectively, in disproportionate share revenue. The Authority received an overpayment of disproportionate share funds in the amount of \$178,239 during fiscal year 2018 and entered a payment plan for repayment. At June 30, 2018, the Authority recorded a payable of \$148,532.

**NOTE 6 - DEPOSITS WITH FINANCIAL INSTITUTIONS**

At June 30, 2019 and 2018, the carrying amount of the Authority’s deposits with financial institutions was \$849,945 and \$747,672. The bank balances are categorized as follows:

	<u>2019</u>	<u>2018</u>
Amount insured by the FDIC	\$ 540,055	\$ 527,181
Amount collateralized with securities held by the pledging financial institution's trust department in the Authority's name	<u>608,622</u>	<u>356,589</u>
Total Bank Balance	<u>\$ 1,148,677</u>	<u>\$ 883,770</u>

**GOODALL-WITCHER HOSPITAL AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

**NOTE 7 – ASSETS WHOSE USE IS LIMITED AND RESTRICTED ASSETS**

The components of assets whose use is limited and restricted assets are set forth in the following table. Investments are stated at fair value and are comprised of cash and certificates of deposit.

	<u>2019</u>	<u>2018</u>
<b>Internally Designated for Health Insurance Claims:</b>		
Cash and Cash Equivalents	\$ 4,576	\$ (658)
<b>Internally Designated for Nursing Home Operations:</b>		
Cash and Cash Equivalents	89,248	25,549
<b>Restricted for Collateral on Notes Payable:</b>		
Certificates of Deposit - Short-Term	<u>608,622</u>	<u>606,589</u>
Total Assets Whose Use is Limited and Restricted Assets	702,446	631,480
Less: Current Portion	<u>(702,446)</u>	<u>(631,480)</u>
Noncurrent Portion	<u>\$ -</u>	<u>\$ -</u>

**NOTE 8 – RESTRICTED NET POSITION**

At June 30, 2019 and 2018, restricted expendable net position was available for the following purposes:

	<u>2019</u>	<u>2018</u>
<b>Restricted for Collateral on Notes Payable:</b>		
Certificates of Deposit - Short-Term	<u>\$ 608,622</u>	<u>\$ 606,589</u>
 Total Restricted Expendable Net Position	 <u>\$ 608,622</u>	 <u>\$ 606,589</u>

**NOTE 9 – PATIENT ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Gross Accounts Receivable	\$ 5,946,225	\$ 5,894,669
Less: Allowance for Bad Debts	(1,749,158)	(1,863,156)
Allowance for Contractuals	<u>(2,124,341)</u>	<u>(2,066,633)</u>
Accounts Receivable, Net of Allowance	<u>\$ 2,072,726</u>	<u>\$ 1,964,880</u>



**GOODALL-WITCHER HOSPITAL AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

**NOTE 9 – PATIENT ACCOUNTS RECEIVABLE (CONTINUED)**

**Concentration of Credit Risk** - The Authority 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 payers at June 30 is as follows:

	<u>2019</u>	<u>2018</u>
Medicare	25%	35%
Medicaid	1%	1%
Other Third-Party Payors	43%	35%
Patients	<u>31%</u>	<u>29%</u>
 Total	 <u>100%</u>	 <u>100%</u>

**NOTE 10 – CAPITAL ASSETS**

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

	<u>Balance 06/30/18</u>	<u>Additions</u>	<u>Reclass/ Retirements</u>	<u>Balance 06/30/19</u>
Building and improvements	\$ 29,714	\$ -	\$ -	\$ 29,714
Equipment	1,980,948	24,589	-	2,005,537
Capital leases	<u>192,049</u>	<u>-</u>	<u>-</u>	<u>192,049</u>
Totals at Historical Cost	2,202,711	24,589	-	2,227,300
 Less Accumulated Depreciation	 <u>(1,490,013)</u>	 <u>(118,318)</u>	 <u>-</u>	 <u>(1,608,331)</u>
 Capital Assets, Net	 <u>\$ 712,698</u>	 <u>\$ (93,729)</u>	 <u>\$ -</u>	 <u>\$ 618,969</u>
	 <u>Balance 06/30/17</u>	 <u>Additions</u>	 <u>Reclass/ Retirements</u>	 <u>Balance 06/30/18</u>
Building and improvements	\$ 29,714	\$ -	\$ -	\$ 29,714
Equipment	1,805,857	175,091	-	1,980,948
Capital leases	<u>163,365</u>	<u>28,684</u>	<u>-</u>	<u>192,049</u>
Totals at Historical Cost	1,998,936	203,775	-	2,202,711
 Less Accumulated Depreciation	 <u>(1,379,856)</u>	 <u>(110,157)</u>	 <u>-</u>	 <u>(1,490,013)</u>
 Capital Assets, Net	 <u>\$ 619,080</u>	 <u>\$ 93,618</u>	 <u>\$ -</u>	 <u>\$ 712,698</u>

**GOODALL-WITCHER HOSPITAL AUTHORITY  
NOTES TO FINANCIAL STATEMENTS  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

**NOTE 11 – NOTES PAYABLE**

Following is a summary of notes payable at June 30:

	<u>Balance</u> <u>06/30/18</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/19</u>
Bank Line of Credit (H)	\$ 1,372,000	\$ -	\$ (490,000)	\$ 882,000
Bank Line of Credit (I)	90,000	137,000	-	227,000
Total Notes Payable	<u>\$ 1,462,000</u>	<u>\$ 137,000</u>	<u>\$ (490,000)</u>	<u>\$ 1,109,000</u>
	<u>Balance</u> <u>06/30/17</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>06/30/18</u>
Bank Line of Credit (D)	\$ 540,000	\$ -	\$ (540,000)	\$ -
Bank Line of Credit (F)	460,000	-	(460,000)	-
Bank Line of Credit (H)	-	1,400,000	(28,000)	1,372,000
Bank Line of Credit (I)	-	790,000	(700,000)	90,000
Total Notes Payable	<u>\$ 1,000,000</u>	<u>\$ 2,190,000</u>	<u>\$ (1,728,000)</u>	<u>\$ 1,462,000</u>

(D) Line of credit dated February 9, 2016 with a maximum borrowing amount of \$1,400,000 including interest at 3.25%. At June 30, 2016, the unused line of credit to be drawn upon as needed was \$260,000. Payments are made on demand, but if no demand is made then unpaid principal and interest are due on June 15, 2017. This line of credit was renewed on July 10, 2017 with a new interest rate of 3.75%. Line of credit is unsecured.

(F) Line of credit dated February 9, 2016 with a maximum borrowing amount of \$600,000 including interest at 2.31%. Payments are made on demand, but if no demand is made then unpaid principal and interest are due on June 15, 2017. This line of credit was renewed on July 10, 2017. Line of credit is secured by certificate of deposit.

(H) Line of credit dated July 10, 2017 with a maximum borrowing amount of \$1,400,000 including interest at 3.75%. Payments are made on demand, but if no demand is made then unpaid principal and interest are due on July 10, 2018. This line of credit was extended to December 15, 2019. Line of credit is unsecured.

(I) Line of credit dated July 10, 2017 with a maximum borrowing amount of \$600,000 including interest at 2.31%. Payments are made on demand, but if no demand is made then unpaid principal and interest are due on July 10, 2018. This line of credit was extended to December 15, 2019. Line of credit is secured by certificates of deposit.

**GOODALL-WITCHER HOSPITAL AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

**NOTE 12 – LONG-TERM DEBT**

Following is a summary of long-term debt at June 30:

	Balance 06/30/18	Additions	Reductions	Balance 06/30/19	Due Within One Year
Capital Leases:					
Telemetry Lease	\$ 118,003	\$ -	\$ (30,899)	\$ 87,104	\$ 32,562
Fetal Monitor Lease	24,418	-	(9,132)	15,286	8,411
Total Capital Leases	<u>\$ 142,421</u>	<u>\$ -</u>	<u>\$ (40,031)</u>	<u>\$ 102,390</u>	<u>\$ 40,973</u>

	Balance 06/30/17	Additions	Reductions	Balance 06/30/18	Due Within One Year
Capital Leases:					
Telemetry Lease	\$ 148,177	\$ -	\$ (30,174)	\$ 118,003	\$ 31,841
Fetal Monitor Lease	-	28,684	(4,266)	24,418	9,132
Total Capital Leases	<u>\$ 148,177</u>	<u>\$ 28,684</u>	<u>\$ (34,440)</u>	<u>\$ 142,421</u>	<u>\$ 40,973</u>

The amount of interest cost incurred was \$54,311 and \$60,618 in 2019 and 2018, respectively, all of which was charged to operations.

The terms and due dates of the Authority's long-term debt at June 30, 2019 and 2018 is as follows:

- Telemetry Lease: \$163,365 at 4.8% capital lease obligation payable in monthly installments of \$3,068 through December 25, 2021. Collateralized by leased equipment with an amortized value of \$122,524.
- Fetal Monitor Lease: \$28,684 at 8.15% capital lease obligation payable in monthly installments of \$908 through December 29, 2020. Collateralized by leased equipment with an amortized value of \$22,879.

**GOODALL-WITCHER HOSPITAL AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

**NOTE 12 – LONG-TERM DEBT (CONTINUED)**

The future maturities of capital leases are as follows:

For the Year Ending June 30,	<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>
2020	40,973	4,351
2021	40,370	1,909
2022	21,047	246
Total	<u>\$ 102,390</u>	<u>\$ 6,506</u>

**NOTE 13 – EMPLOYEE HEALTH CLAIMS**

The Authority is partially self-insured for health claims of participating employees and dependents up to \$40,000 per individual. Commercial stop-loss insurance coverage is purchased for claims in excess of the individual 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 Authority’s estimate will change by a material amount in the near term. Activity in the Authority’s accrued employee health claims liability during 2019 and 2018 is summarized as follows:

	<u>2019</u>	<u>2018</u>
Balance, Beginning of Period	\$ 40,000	\$ 100,000
Current Year Claims Incurred and Changes in Estimates for Claims Incurred in Prior Years	1,057,177	997,137
Claims and Expenses Paid	<u>(1,057,177)</u>	<u>(1,057,137)</u>
Balance, End of Period	<u>\$ 40,000</u>	<u>\$ 40,000</u>

**GOODALL-WITCHER HOSPITAL AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

**NOTE 14 - MEDICAL MALPRACTICE CLAIMS**

The Authority has joined together with other providers of health care services to form the Texas Hospital Insurance Exchange, a risk pool (the Pool) currently operating as a common risk management and insurance program for its members. The Authority purchases medical malpractice insurance from the Pool under a claim-made policy. The Authority pays an annual premium to the Pool for its torts insurance coverage. The Pool's governing agreement specifies that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts.

The Authority is a unit of government covered by the Texas Tort Claims Acts which, by statute, limits its liability to \$100,000 per person / \$300,000 per occurrence. These limits coincide with the malpractice insurance coverage maintained by the Authority. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim 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. It is reasonably possible that the estimate could change materially in the near term; however; no accrual for medical malpractice claims have been made in the accompanying financial statements.

**NOTE 15 - COMMITMENTS AND CONTINGENCIES**

**Litigation** –The Authority, from time to time, may be 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, the ultimate resolution of pending legal proceedings will not have a material effect on the Authority's financial position or results of operations.

**Texas Medicaid 1115 Healthcare Transformation Waiver Recoupment Liability** – During 2017, several hospitals filed a lawsuit against the federal government challenging the rule calculating disproportionate share (DSH) and uncompensated care (UC) payments. The hospitals claimed the rule's definition of "costs incurred" was contrary to the Medicaid Act. The main issue is whether payments made by Medicare and private insurers should be subtracted from a hospital's "costs incurred" in the calculation of the Medicaid Hospital Specific Limit (HSL). In August 2019, the D.C. Circuit reinstated the 2017 Final Rule as adopted by the Centers for Medicare and Medicaid Services. As a result, the HSL was subsequently recalculated, resulting in numerous hospitals receiving DSH and UC funds in excess of the calculated limit during demonstration years 7 and 8. Consequently, management has recorded an estimate for the anticipated recoupment of DSH and UC funds at June 30, 2019. At June 30, 2019, management recorded an estimated recoupment liability of \$143,000. The recoupment liability is included within other accrued liabilities in the accompanying combined statements of net position.

**Leases** – The Authority leases various equipment and facilities under operating leases expiring at various dates. Total rental expense, including operating leases, in 2019 and 2018 was \$1,875,202 and \$1,906,223, respectively.

**GOODALL-WITCHER HOSPITAL AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

**NOTE 16 – ELECTRONIC HEALTH RECORDS INCENTIVE PROGRAM**

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are based on Medicare's portion of the undepreciated EHR cost in the year the Authority satisfies the meaningful use requirements, and is included in the CMS Medicare cost report. Payments under the Medicaid program are generally made up to three years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payments under both programs are contingent on the Authority continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Authority recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all the meaningful use objectives and any other specific grant requirements applicable for the reporting period. In 2019 and 2018, the Authority recognized \$13,818 and \$61,650, respectively, in EHR incentive revenue. The respective revenue is included in operating revenues in the statements of revenues, expenses, and changes in net position.

**NOTE 17 - RETIREMENT PLAN**

The Authority has a defined contribution pension plan also known as a Section 457 Plan. This plan covers substantially all employees meeting the plan requirements. Employee contributions to the plan are discretionary. The Authority Board annually determines the amount if any, of the Authority's contributions to the 457 Plan. During the years ended June 30, 2019, 2018 and 2017, the Authority made contributions of \$164,900, \$157,973 and \$128,326, respectively, and employee contributions were \$276,156, \$238,941, and \$214,914, respectively.

**NOTE 18 – LEASE WITH GOODALL-WITCHER HEALTHCARE FOUNDATION**

During 2012, the Authority entered into a lease agreement with Goodall-Witcher Healthcare Foundation. This agreement requires the Authority to pay \$137,230 a month in rent to the Foundation for the lease of all assets real, personal and mixed, tangible and intangible owned or leased by the Foundation and associated with or employed in the operations of its hospital. The Authority will use the property for hospital purposes or purposes incidental and necessary to such purposes. The term of this agreement is for five years commencing on December 1, 2012. The initial lease term expired on November 30, 2017 but was auto-renewed for an additional five years in accordance with the contract. In connection with this agreement, the Authority incurred lease expenses of \$1,646,760 which has been recorded in operating expenses for the years ended June 30, 2019 and 2018. The Authority has \$137,230 and \$960,610 of unpaid lease payments which are sitting in accounts payable as of June 30, 2019 and 2018, respectively.

**GOODALL-WITCHER HOSPITAL AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

**NOTE 18 – LEASE WITH GOODALL-WITCHER HEALTHCARE FOUNDATION  
(CONTINUED)**

On December 1, 2012, the Authority entered into an asset purchase agreement with Goodall-Witcher Healthcare Foundation (the “Foundation”). Under this agreement, the Authority acquired certain assets and liabilities from the Foundation to continue to provide healthcare services to the indigent and uninsured population of Clifton, Texas and Bosque County. The capital lease assets were not acquired with the assumption of the related liability. On December 1, 2012, the Authority recorded a payable to the Foundation in the amount of \$1,763,383 for excess value of the working capital. Under the asset purchase agreement, interest only is due and payable monthly beginning January 1, 2013 and continues through December 1, 2014. Interest will accrue at a rate of 4.5% per year. After that date, the unpaid principal balance and interest are due and payable in equal monthly installments sufficient to fully amortize the unpaid balance of the note. Installments begin January 1, 2015 and continue regularly thereafter until November 30, 2017.

Following is a summary schedule of amounts due to Goodall-Witcher Healthcare Foundation at June 30:

	Balance 06/30/17	Additions	Reductions	Balance 06/30/18	Due Within One Year
Promissory Note	\$ 274,033	\$ -	\$ (274,033)	\$ -	\$ -
Total Notes Payable	<u>\$ 274,033</u>	<u>\$ -</u>	<u>\$ (274,033)</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 19 - NONCAPITAL GRANTS AND CONTRIBUTIONS**

The Authority recognized \$2,149,668 and \$1,002,629 of noncapital grants and contributions for the years ended June 30, 2019 and 2018, respectively. Of the total contributions, \$2,140,008 and \$994,000 were donations from Goodall-Witcher Healthcare Foundation for the years ended June 30, 2019 and 2018, respectively.

**NOTE 20 – AUTHORITY OPERATIONS**

On November 26, 2018, the Bosque County Commissioners Court passed a resolution accepting the election results of the voters of Bosque County, Texas which approved the formation of the Bosque County Hospital District (the “District”), a taxing entity. On June 28, 2019, the Authority entered into an asset transfer agreement with the District. Effective July 1, 2019, the Authority transferred all operations, assets, and liabilities of Goodall-Witcher Hospital Authority to the Bosque County Hospital District. Operations transferred include, but are not limited to, Goodall-Witcher Hospital, Clifton Medical Clinic, Lake Whitney Medical Clinic, Goodall-Witcher Home Health Agency, Goodall-Witcher Nursing Facility, and Goodall-Witcher Fitness and Wellness Center. As a result, Goodall-Witcher Hospital Authority ceases to exist operationally subsequent to the transfer date.

**GOODALL-WITCHER HOSPITAL AUTHORITY  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

**NOTE 21 – SUBSEQUENT EVENTS**

The date to which events occurring after June 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 November 19, 2019, which is the date on which the financial statements were available to be issued.





**INDEPENDENT AUDITOR’S REPORT ON SUPPLEMENTARY INFORMATION**

Board of Directors and Management  
Goodall-Witcher Hospital Authority  
Clifton, Texas

We have audited the financial statements of Goodall-Witcher Hospital Authority as of and for the years ended June 30, 2019 and 2018, and our report thereon dated November 19, 2019, which expressed an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The other financial information on pages 26 through 30 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Durbin & Company, L.L.P.*  
Durbin & Company, L.L.P.  
Lubbock, Texas  
November 19, 2019

**GOODALL-WITCHER HOSPITAL AUTHORITY  
NET PATIENT SERVICE REVENUE AND  
OTHER OPERATING REVENUE  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Routine Services		
Routine services	\$ 1,843,999	\$ 1,679,273
Nursery	120,864	157,000
Total Routine Services	<u>1,964,863</u>	<u>1,836,273</u>
Ancillary and Other Services		
Inpatient:		
Operating room	326,753	367,473
Goodall-Witcher Nursing Facility	1,556,616	1,641,260
Delivery and labor	223,498	250,216
Radiology and nuclear medicine	309,777	324,986
Laboratory	651,246	523,154
Blood	88,161	58,199
Respiratory therapy	400,508	421,677
Physical therapy	577,497	490,117
Occupational therapy	516,405	329,517
Speech therapy	10,900	5,889
Electrocardiology	18,787	20,007
Central supply	546,756	531,119
Pharmacy	1,625,992	1,556,981
Ultrasound	55,167	24,660
Emergency	65,478	56,875
Total Inpatient Ancillary Services	<u>6,973,541</u>	<u>6,602,130</u>

See Independent Auditor's report on supplementary information

**GOODALL-WITCHER HOSPITAL AUTHORITY  
NET PATIENT SERVICE REVENUE AND  
OTHER OPERATING REVENUE (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Outpatient:		
Operating room	\$ 2,008,866	\$ 1,729,626
Delivery and labor	49,082	27,119
Radiology and nuclear medicine	5,766,006	5,786,760
Laboratory	6,198,138	5,913,218
Blood	100,368	101,941
Respiratory therapy	142,159	155,729
Physical therapy	1,447,692	1,747,129
Occupational therapy	345,219	385,876
Speech therapy	48,262	112,763
Electrocardiology	215,457	188,866
Central supply	296,568	379,449
Pharmacy	1,823,734	1,828,469
Ultrasound	703,112	532,551
Clifton Medical Clinic	5,523,662	6,236,329
Whitney Medical Clinic	3,169,645	1,961,105
Emergency room	4,435,051	4,454,175
Observation	415,243	473,354
Sleep Lab	240,333	247,064
Cardiac Rehab	78,642	79,772
Home health	641,479	636,234
Fitness and Wellness	111,270	101,654
Total Outpatient Ancillary Services	<u>33,759,988</u>	<u>33,079,183</u>
 Gross Patient Revenue	 <u>\$42,698,392</u>	 <u>\$41,517,586</u>

See Independent Auditor's report on supplementary information

**GOODALL-WITCHER HOSPITAL AUTHORITY  
NET PATIENT SERVICE REVENUE AND  
OTHER OPERATING REVENUE (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Gross Patient Revenue	\$ 42,698,392	\$ 41,517,586
Deductions from Revenue:		
Charity	(3,550,957)	(1,659,351)
Third-Party Contractual Adjustments	(18,476,821)	(18,582,989)
Provision for Bad Debts	(2,034,400)	(3,766,643)
Medicaid Disproportionate Share and Other Credits	<u>1,118,463</u>	<u>823,919</u>
Total Deductions from Revenue	<u>(22,943,715)</u>	<u>(23,185,064)</u>
Net Patient Service Revenue	<u>\$ 19,754,677</u>	<u>\$ 18,332,522</u>
Nursing Home Revenue	<u>\$ 18,389,429</u>	<u>\$ 17,702,263</u>
Other Operating Revenue:		
Delivery System Reform Incentive Program	\$ 736,648	\$ 1,004,161
340B Revenue	952,194	1,206,627
Electronic Medical Records Incentive Revenue	13,818	61,650
Miscellaneous	<u>86,404</u>	<u>(382,258)</u>
Total Other Operating Revenue	<u>\$ 1,789,064</u>	<u>\$ 1,890,180</u>

See Independent Auditor's report on supplementary information

**GOODALL-WITCHER HOSPITAL AUTHORITY  
OPERATING EXPENSES  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Routine Services	\$ 1,585,529	\$ 1,396,105
Ancillary Services		
Operating room	1,334,957	1,439,114
Goodall-Witcher Nursing Facility	1,005,482	1,001,705
Delivery and labor	374,775	437,376
Radiology and nuclear medicine	881,625	761,571
Laboratory	1,024,776	885,857
Blood	137,750	126,499
Respiratory therapy	196,068	190,132
Physical therapy	485,212	530,458
Occupational therapy	207,063	182,673
Speech therapy	41,564	48,719
Central supply	75,047	60,770
Pharmacy	531,421	495,381
Clifton Medical Clinic	2,846,116	2,778,490
Whitney Medical Clinic	1,841,496	1,030,743
Emergency room	1,588,679	1,579,817
Sleep Lab	55,556	70,234
Cardiac Rehab	61,234	79,610
Home health	335,292	288,341
Fitness and Wellness	95,880	95,436
Total Ancillary Services	<u>13,119,993</u>	<u>12,082,926</u>

See Independent Auditor's report on supplementary information

**GOODALL-WITCHER HOSPITAL AUTHORITY  
OPERATING EXPENSES (CONTINUED)  
FOR THE YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
General Services		
Operation and Plant	\$ 573,156	\$ 673,331
Laundry and Linen	73,493	113,826
Housekeeping	276,201	220,019
Dietary	488,042	520,959
Total General Services	<u>1,410,892</u>	<u>1,528,135</u>
Nursing Home Services	18,295,199	17,635,265
Administrative Services		
Salaries and Wages	752,726	679,984
Employee Benefits	1,946,698	1,848,720
Medical Records	883,779	853,507
Nursing Administration	223,556	238,810
Rental Expense	1,671,602	1,678,451
Maintenance Agreements	219,383	207,496
Travel and Seminars	6,251	13,154
Insurance	317,437	357,815
Professional Fees and Purchased Services	264,641	175,923
Supplies and Other Operating	692,714	845,794
Total Administrative Services	<u>6,978,787</u>	<u>6,899,654</u>
Depreciation and Amortization	<u>118,318</u>	<u>110,157</u>
Total Operating Expenses	<u>\$41,508,718</u>	<u>\$39,652,242</u>

See Independent Auditor's report on supplementary information