Medina County Hospital District d.b.a. Medina Regional Hospital

Independent Auditor's Report and Financial Statements

September 30, 2023 and 2022

Medina County Hospital District
d.b.a. Medina Regional Hospital
September 30, 2023 and 2022

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Independent Auditor's Report

Board of Directors
Medina County Hospital District
d.b.a. Medina Regional Hospital
Hondo, Texas

Opinion

We have audited the financial statements of Medina County Hospital District d.b.a. Medina Regional Hospital (the District), as of and for the years ended September 30, 2023 and 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 financial position of the District as of September 30, 2023 and 2022, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 audits. 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, on October 1, 2022, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 96, *Subscription-Based Information Technology Arrangements.* 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 opinion. 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 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 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.

FORVIS, LLP

Waco, Texas
March 28, 2024

Medina County Hospital District
d.b.a. Medina Regional Hospital
Management's Discussion and Analysis
Years Ended September 30, 2023 and 2022

Introduction

This management's discussion and analysis of the financial performance of Medina County Hospital District d.b.a. Medina Regional Hospital (the District) provides an overview of the District's financial activities for the years ended September 30, 2023 and 2022. It should be read in conjunction with the accompanying financial statements of the District. In addition, the 2021 balances included in this management's discussion and analysis have not been restated to reflect the adoption of the new GASB 96 subscription based information technology arrangements accounting standard that was required to be adopted for the fiscal year ended September 30, 2023.

Financial Highlights

- Unrestricted cash and cash equivalents increased in 2023 by $7,828,274 or 19%, and increased in 2022 by $1,486,079 or 4%.
- The District reported operating income of $2,523,355 in 2023 and $3,048,885 in 2022.
- Net nonoperating revenues increased by $2,742,830 or 39%, in 2023 compared to 2022, and decreased by $3,625,498 or 34%, in 2022 compared to 2021.
- The District's net position increased in 2023 by $12,219,862 or 21%, and increased by $10,002,562 or 20% in 2022.

Using This Annual Report

The District's financial statements consist of three statements - a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the District, including resources held by the District but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The District is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

One of the most important questions asked about any hospital's finances is, "Is the hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that 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 District's net position and changes in them. The District's total net position - the difference between assets and liabilities - is one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the District's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the District.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of 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 and cash equivalents during the reporting period.

The District's Net Position

The District's net position is the difference between assets and liabilities reported in the balance sheets. The District's net position increased in 2023 by $12,219,862 and increased in 2022 by $10,002,562, respectively. Net position increased in 2021 by $12,340,361.

Table 1: Assets, Liabilities, Deferred Inflows of Resources and Net Position

	2023	2022	2021
Assets			
Cash	$ 31,313,430	$ 30,166,345	$ 20,435,671
Restricted cash	-	-	8,348,165
Certificates of deposit	17,316,159	10,975,841	10,872,271
Patient accounts receivable, net	7,908,751	7,573,074	7,877,292
Other current assets	5,726,112	7,866,684	7,603,106
Capital assets, net	20,482,867	21,486,073	20,821,252
Lease assets, net	21,500	37,075	41,828
Subscription assets, net	340,871	-	-
Total assets	$ 83,109,690	$ 78,105,092	$ 75,999,585
Liabilities			
Accounts payable	$ 7,670,518	$ 7,894,248	$ 7,967,457
Unearned revenue - provider relief funds	860,513	2,527,290	2,170,161
Long-term debt	-	499,901	8,702,548
Other current and noncurrent liabilities	3,439,803	8,264,659	8,242,987
Total liabilities	11,970,834	19,186,098	27,083,153
Net Position			
Net investment in capital assets	20,466,172	15,529,958	6,979,643
Restricted - expendable for debt service	-	-	8,348,165
Unrestricted	50,672,684	43,389,036	33,588,624
Total net position	71,138,856	58,918,994	48,916,432
Total liabilities, deferred inflows of resources, and net position	$ 83,109,690	$ 78,105,092	$ 75,999,585

Significant changes in the District's cash and investments in 2023 and 2022 was principally driven by early payoff of long term debt in both 2023 and 2022, release of restricted cash in 2022, and excess of revenues over expenses.

Operating Results and Changes in the District's Net Position

In 2023, the District's net position increased by $12,219,862, as shown in Table 2. This is made up of several different components and represents an increase of $2,217,300, compared with the increase in net position for 2022 of $10,002,562. The District's change in net position decreased $2,337,799 in 2022 compared to 2021.

Table 2: Operating Results and Changes in Net Position

	2023	2022	2021
Operating Revenues			
Net patient service revenue	$ 39,471,801	$ 36,333,375	$ 33,936,751
Nursing facility revenues	60,013,359	51,287,291	42,383,524
Other	588,080	479,794	488,185
Total operating revenues	100,073,240	88,100,460	76,808,460
Operating Expenses			
Salaries, wages and employee benefits	18,518,519	16,926,329	18,084,172
Purchased services and professional fees	10,353,596	9,457,820	8,467,808
Supplies and other	7,383,753	6,540,757	5,933,867
Nursing facility expenses	59,122,775	50,242,831	43,598,296
Depreciation and amortization	2,171,242	1,883,838	1,669,131
Total operating expenses	97,549,885	85,051,575	77,753,274
Operating Income (Loss)	2,523,355	3,048,885	(944,814)
Nonoperating Revenues (Expenses)			
Property taxes	4,924,391	4,378,241	3,963,273
Investment income	1,675,348	279,693	500,875
Interest expense	(165,406)	(335,095)	(638,973)
Noncapital grants and gifts	3,262,174	2,630,838	6,754,000
Total nonoperating revenues, net	9,696,507	6,953,677	10,579,175
Income Before Special Item	12,219,862	10,002,562	9,634,361
Special Item - Forgiveness of Debt	-	-	2,706,000
Increase in Net Position	$ 12,219,862	$ 10,002,562	$ 12,340,361

Operating Income (Loss)

The first component of the overall change in the District's net position is its operating income (loss) - generally, the difference between net patient service revenue and the expenses incurred to perform those services. Operating income in 2023 represents a decrease of $525,530, or 17%, from operating income reported in 2022. Operating income in 2022 increased by $3,993,699, or 423%, from the operating loss reported in 2021.

The primary components of 2023 operating income are:

- Increase in net patient service revenue of $3,138,426, or 9%, due to increased utilization with a corresponding increase of $1,592,190 or 9% in salaries, wages and employee benefits.
- Increase in salaries, wages and employee benefits expense of $1,592,190, or 9%, and increase purchased services and professional fees expense of $895,776, or 9%, due to staffing needs in response to the increased utilization as noted above.
- Increase in supplies and other expenses of $842,996, or 13%, due to challenges with inflationary pressures in the current year.

The primary components of 2022 operating income are:

- Increase in net patient service revenue of $2,396,624, or 7%, attributable to an increase in outpatient revenues.
- Increase in purchased services and professional fees expense of $990,012, or 12%, due to challenges in employee retention resulting in increased contracted staffing needs in the current year.
- Increase in the net operating results of the nursing facilities (nursing facilities revenues less nursing facility expenses) of $2,259,232, due to additional patient revenue recovered after the COVID-19 Pandemic.

Nonoperating Revenues (Expenses)

Nonoperating revenues (expenses) consist primarily of property taxes levied by the District and noncapital grants and gifts. Property tax revenue increased from $4,378,241 in 2022 to $4,924,391 in 2023. Noncapital grants and gifts revenue was $3,262,174 and $2,630,838 in 2023 and 2022, respectively. Noncapital grants and gifts has increased primarily due to recognition of revenue from the coronavirus related grants as discussed in *Note 15.*

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in balance sheet amounts, operating results and nonoperating revenues and expenses for 2023, 2022 and 2021 discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At September 30, 2023 and 2022, the District had $20,482,867 and $21,486,073, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 6* to the financial statements.

Debt

At September 30, 2023 and 2022, the District had $0 and $5,806,408, respectively, in outstanding debt as detailed in *Note 9* to the financial statements. The decrease in outstanding debt in 2023 and 2022 is attributable to early payoff of notes payables as discussed at *Note 9*.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to District Business Administration at 830.426.7898.

Medina County Hospital District
d.b.a. Medina Regional Hospital
Balance Sheets
September 30, 2023 and 2022

Assets

	2023	2022
Current Assets		
Cash	$ 31,313,430	$ 30,166,345
Certificates of deposit	17,316,159	10,975,841
Patient accounts receivable, net of allowance; 2023 - $7,970,000; 2022 - $4,540,000	7,908,751	7,573,074
Estimated amounts due from third-party payers	12,769	-
Medicaid supplemental program receivable	463,243	1,102,509
Other receivables	3,630,984	5,256,481
Supplies	841,061	994,082
Property tax receivable	132,354	109,775
Prepaid expenses and other	645,701	403,837
Total current assets	62,264,452	56,581,944
Capital Assets, Net	20,482,867	21,486,073
Lease Assets, Net	21,500	37,075
Subscription Assets, Net	340,871	-
Total assets	$ 83,109,690	$ 78,105,092

Liabilities and Net Position

	2023	2022
Current Liabilities		
Current maturities of long-term debt	$ -	$ 5,306,507
Current portion of lease liabilities	4,181	25,914
Current portion of subscription liabilities	104,731	-
Accounts payable	7,670,518	7,894,248
Estimated amounts due to third-party payers	335,259	448,499
Patient credit balances	1,695,096	1,166,012
Accrued expenses	1,086,511	1,304,559
Unearned revenue - provider relief funds	860,513	2,527,290
Total current liabilities	11,756,809	18,673,029
Other Liabilities		
Long-term debt	-	499,901
Lease liabilities	8,979	13,168
Subscription liabilities	205,046	-
Total other liabilities	214,025	513,069
Total liabilities	11,970,834	19,186,098
Net Position		
Net investment in capital assets	20,466,172	15,529,958
Unrestricted	50,672,684	43,389,036
Total net position	71,138,856	58,918,994
Total liabilities and net position	$ 83,109,690	$ 78,105,092

Medina County Hospital District
d.b.a. Medina Regional Hospital
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2023 and 2022

	2023	2022
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2023 – $5,142,000, 2022 – $6,202,000	$ 39,471,801	$ 36,333,375
Net nursing facility revenue	60,013,359	51,287,291
Other	588,080	479,794
Total operating revenues	100,073,240	88,100,460
Operating Expenses		
Salaries and wages	16,514,587	15,049,907
Employee benefits	2,003,932	1,876,422
Purchased services and professional fees	10,353,596	9,457,820
Supplies and other	7,383,753	6,540,757
Nursing facility expenses	59,122,775	50,242,831
Depreciation and amortization	2,171,242	1,883,838
Total operating expenses	97,549,885	85,051,575
Operating Income	2,523,355	3,048,885
Nonoperating Revenues (Expenses)		
Property tax revenue	4,924,391	4,378,241
Investment income	1,675,348	279,693
Interest expense	(165,406)	(335,095)
Noncapital grants and gifts	3,262,174	2,630,838
Total nonoperating revenues, net	9,696,507	6,953,677
Increase in Net Position	12,219,862	10,002,562
Net Position, Beginning of Year	58,918,994	48,916,432
Net Position, End of Year	$ 71,138,856	$ 58,918,994

Medina County Hospital District
d.b.a. Medina Regional Hospital
Statements of Cash Flows
Years Ended September 30, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Receipts from and on behalf of patients	$ 101,817,321	$ 87,987,118
Payments to suppliers and contractors	(77,081,126)	(66,448,628)
Payments to employees	(18,739,521)	(17,450,148)
Other receipts	588,080	479,794
Net cash provided by operating activities	6,584,754	4,568,136
Cash Flows from Noncapital Financing Activities		
Property taxes supporting operations	4,901,812	4,367,956
Noncapital grants and gifts	1,595,397	1,119,583
Proceeds from Provider Relief Funds	-	1,868,384
Net cash provided by noncapital financing activities	6,497,209	7,355,923
Cash Flows from Capital and Related Financing Activities		
Principal paid on long-term debt	(5,806,408)	(7,893,904)
Interest paid on notes payable, long-term debt and leases	(141,722)	(285,720)
Principal and interest payments received on leases receivable	-	2,200
Principal paid on leases payable	(25,922)	(25,693)
Interest paid on leases payable	(13,118)	-
Principal paid on subscriptions payable	(106,812)	-
Interest paid on subscriptions payable	(7,612)	-
Purchase of capital assets	(1,302,914)	(2,514,556)
Net cash used in capital and related financing activities	(7,404,508)	(10,717,673)
Cash Flows from Investing Activities		
Interest income	1,675,030	176,123
Purchase of certificates of deposit	(6,340,000)	-
Net cash provided by investing activities	(4,664,970)	176,123
Increase in Cash	1,012,485	1,382,509
Cash, Beginning of Year	30,166,345	28,783,836
Cash, End of Year	$ 31,178,830	$ 30,166,345

Medina County Hospital District
d.b.a. Medina Regional Hospital
Statements of Cash Flows (Continued)
Years Ended September 30, 2023 and 2022

	2023	2022
Reconciliation of Operating Income to Net Cash Provided by Operating Activities		
Operating income	$ 2,523,355	$ 3,048,885
Depreciation and amortization	2,171,242	1,883,838
Provision for uncollectible accounts	5,142,284	6,201,736
Changes in operating assets and liabilities		
Patient accounts receivable	(5,477,961)	(5,897,518)
Medicaid supplemental program receivable	639,266	54,274
Estimated amounts due to/from and third-party payers	(126,009)	429,461
Accounts payable and accrued expenses	(441,778)	(547,653)
Other assets and liabilities	2,154,355	(604,887)
Net cash provided by operating activities	$ 6,584,754	$ 4,568,136
Supplemental Cash Flows Information		
Capital assets acquisitions included in accounts payable	$ 56,129	$ 147,700
Lease obligation incurred for lease assets	$ -	$ 18,000
Subscription obligation incurred for subscription assets	$ 416,589	$ -

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

Nature of Operations and Reporting Entity

The Hondo Hospital Authority d.b.a. Medina Community Hospital (the Authority), located in Hondo, Texas, was created jointly by the county of Medina and the city of Hondo, Texas. The Authority was established on March 18, 2002, by an ordinance of the City Council of the city of Hondo. Effective December 1, 2002, the Authority took over full operations of the hospital from the county and the city. The operations of the Authority are administered by a seven-member board of directors appointed by the City Council of Hondo, Texas. The Authority provides inpatient, outpatient and emergency care services for residents of Hondo, Texas. Admitting physicians are primarily practitioners in the local area. The Authority received its critical access designation on April 1, 2002.

The citizens of Medina County elected to form a hospital district on June 22, 2009. On October 1, 2009, the Authority transferred all assets and liabilities to Medina County Hospital District d.b.a. Medina Regional Hospital (the District). Consequently, a seven-member elected board of directors governs operations. The District became the operator of five area nursing homes between 2017 and 2021.

Basis of Accounting and Presentation

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

Medina Healthcare Fund

The Medina Healthcare Fund (the Fund) was organized in 2003 for charitable, scientific, and educational purposes, more specifically to promote health care in the city of Hondo and Medina County, Texas by enabling the continuation of services at the District. Funds raised from individual contributions, grants and gifts can be used (but are not limited to) the following: to fund renovations to existing facilities, new building projects, equipment purchases, programs, services and/or general operating support of the District, as deemed appropriate by the board of directors of the Fund. The board consists of at least 11 members, but not more than 15. The Fund is exempt from federal and state income taxes under Internal Revenue Code Section 501(c)(3).

Although the District does not control the timing or amount of receipts from the Fund, the majority of the Fund's revenues and related income are held for the benefit of the District. However, the District does not have control over these funds, and they are not considered significant to the District. Therefore, the Fund is not considered a component unit in the District's financial statements. The District received no funding in 2023 or 2022 from the Fund.

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 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.

Investments and Investment Income

Investments consist of certificates of deposits, which are carried at amortized cost. Investment income consists of interest income from deposit accounts.

Property Taxes

The District received approximately 4.5% and 4.6% in 2023 and 2022, respectively, of its financial support from property taxes. During 2023 and 2022, 100% of these funds were used to support operations of the District.

Property taxes are levied by the District on October 1 of each year based on the preceding January 1 assessed property values. To secure payment, an enforceable lien attaches to the property on January 1, when the value is assessed. Property taxes become due and payable when levied on October 1. This is the date on which an enforceable legal claim arises and the District records a receivable for the property tax assessment, less an allowance for uncollectible taxes. Property taxes are considered delinquent after January 31 of the following year.

Ad valorem taxes were assessed in fiscal years 2023 and 2022 on 100% of the appraised property value at the rate of $0.0937 and $0.0984 per $100 valuation for 2023 and 2022, respectively. Revenue from property taxes is recognized in the year for which the taxes are levied.

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. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Patient Accounts Receivable

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

Supplies

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

Capital Assets

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

Land improvements	2-25 years
Building and improvements	5-40 years
Equipment	3-5 years

Lease Assets

Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset into service. Lease assets are amortized on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset.

Subscription Assets

Subscription assets are initially recorded at the initial measurement of the subscription liability, plus subscription payments made at or before the commencement of the subscription-based information technology arrangement (SBITA) term, less any SBITA vendor incentives received from the SBITA vendor at and certain payments made before the commencement of the SBITA term, plus capitalizable initial implementation costs. Subscription assets are amortized on a straight-line basis over the shorter of the SBITA term or the useful life of the underlying IT asset.

Capital, Lease, and Subscription Asset Impairment

The District evaluates capital, lease, and subscription assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital or lease asset has occurred. If a capital, lease, or subscription asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, accumulated depreciation is increased by the amount of the impairment loss. No asset impairment was recognized during the years ended September 30, 2023 and 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.

Net Position

Net position of the District is classified in three components. Net investment in capital assets consists of capital and lease assets net of accumulated depreciation and reduced by the outstanding balances of borrowings and lease liabilities used to finance the purchase or construction of those assets. Restricted expendable net position is made up of 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 assets net position that does not meet the definition of net investment in capital assets or restricted expendable net position.

Net Patient Service Revenue

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

Charity Care

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

Income Taxes

The District is a political subdivision under the laws of the state of Texas, and, therefore, it is exempt from federal income tax pursuant to Section 115 of the Internal Revenue Code. Additionally, pursuant to Section 1.6033-2(g)(6) of the Income Tax Regulations, it is not required to file an information return Form 990.

Change in Accounting Principle

On October 1, 2022, the District adopted GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*, using a retrospective method of adoption to all SBITAs in place and not yet completed at the beginning of the earliest period presented, October 1, 2021. The statement requires governmental entities to report a subscription asset and subscription liability for a SBITA and to disclose essential information about the arrangement. The impact to the 2022 financial statements and disclosures was not material.

Note 2: 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. The Hospital is a certified by Medicare as a Critical Access Hospital (CAH) for Medicare reimbursement purposes. As a CAH, inpatient acute care services and substantially all outpatient services provided to Medicare beneficiaries are paid on a cost reimbursement methodology. CAH certification imposes limitations on the Hospital’s operations, including an average annual length of stay limitation of 96 hours and a limitation of 25 general acute care beds and 10 psychiatric care beds. Inpatient psychiatric services related to Medicare beneficiaries are paid on a cost reimbursement methodology and/or prospectively determined rates. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.

Medicaid. Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective payment system. Outpatient services are reimbursed under a mixture of fee schedules and cost reimbursement. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audit thereof by the Medicaid administrative contractor.

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

Approximately 60% and 63% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2023 and 2022, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Supplemental Medicaid Funding

In response to the growing number of uninsured patients and the rising cost of health care, the Texas Legislature established a Texas Medicaid Disproportionate Share Program (DSH Program) that was designed to assist those facilities serving the majority of the indigent patients by providing funds supporting increased access to health care within the community. This program allows the Texas Department of Health and Human Services (HHSC) 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 project entitled “Texas Health Transformation Quality Improvement Program” (Waiver). The Waiver extended existing Medicaid managed care programs and established two funding pools that assist providers with uncompensated care (UC Pool) costs and promote health system transformation (DSRIP Pool).

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

On April 22, 2022, CMS approved an extension of the Waiver through September 30, 2030. The extension provides for the continuation of the UC Pool and an expansion of directed payment programs, which transitions participating hospitals away from the DSRIP program which ended on September 30, 2021. One of the new directed payment programs is the Comprehensive Hospital Increased Reimbursement Program (CHIRP), which replaces the existing Uniform Hospital Rate Increase Program (UHRIP). Under UHRIP, HHSC directed managed care organizations in a service delivery area to provide a uniform percentage rate increase to all hospitals within a particular class of hospitals. CHIRP also provides for rate increases similar to UHRIP but also provides for a rate enhancement above the UHRIP rate, based upon a percentage of estimated average commercial reimbursement. Participating hospitals may opt into this second component. The UHRIP program ended on August 31, 2021 and the CHIRP program began on September 1, 2021. CHIRP will require annual approval by CMS and has been approved through August 31, 2023.

Total revenue recognized from these programs, exclusive of CHIRP and UHRIP, was approximately $2,034,000 and $3,140,000 for the years ended September 30, 2023 and 2022, respectively, and is included as patient service revenues in the statements of operations and changes in net position.

These amounts are inclusive of DSRIP revenue of approximately $0 and $700,000 for 2023 and 2022, respectively, as the barriers were met for conditional contribution. At September 30, 2023 and 2022, amounts due from settlement of these programs was approximately $463,000 and $1,103,000, respectively, and is included as Medicaid supplemental program receivable in the balance sheets.

The programs described above 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 regulation in future periods. The funding historically received may not be representative of funding that will be received in future years.

Note 3: Net Nursing Facility Revenue

The District also participates in Texas Quality Improvement Payment to Qualified Nursing Facilities Program (QIPP), previously referred to as the Minimum Payment Amount program. This program was designed to assist nursing facilities serving indigent patients by providing funding to support increased access to health care within the community. QIPP will allow participating providers to receive additional reimbursement if they either reach certain national benchmarks or if they make quarterly improvements in up to four predetermined quality measures. Revenue recognized under this program (net of any intergovernmental transfer payments) for 2023 and 2022 was approximately $7,063,000 and $8,929,000, respectively, and is included in nursing facility revenue in the statements of revenues, expenses, and changes in net position. At September 30, 2023 and 2022, amounts due from this program was approximately $3,082,000 and $3,610,000, respectively, and is included in other receivables in the balance sheets.

The program described is 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 regulation in future periods. Management is not currently able to estimate the impact of this review on it financial statements.

Note 4: 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 does not have a deposit policy for custodial credit risk.

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 of 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 September 30, 2023 and 2022, the District's bank balances of $54,528,708 and $41,987,457, respectively, were either insured or collateralized by assets held by the pledging financial institutions agent in the District's name.

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 September 30 consisted of:

	2023	2022
Medicare	$ 2,866,013	$ 2,651,014
Medicaid	2,759,455	2,484,571
Other third-party payers	4,488,951	3,681,870
Patients	5,763,753	3,296,933
	15,878,172	12,114,388
Allowances for uncollectible accounts	(7,969,421)	(4,541,314)
	$ 7,908,751	$ 7,573,074

Note 6: Capital, Lease, and Subscription Assets

Capital asset activity for the years ended September 30 was:

	2023				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 593,961	$ -	$ -	$ -	$ 593,961
Land improvements	185,481	-	-	-	185,481
Buildings and improvements	25,967,998	-	(142,686)	2,006,070	27,831,382
Equipment	16,394,614	-	-	787,680	17,182,294
Construction in progress	1,787,890	1,211,343	-	(2,793,750)	205,483
	44,929,944	1,211,343	(142,686)	-	45,998,601
Less accumulated depreciation					
Land improvements	91,660	21,460	-	-	113,120
Buildings and improvements	10,340,402	1,266,378	(8,086)	-	11,598,694
Equipment	13,011,809	792,111	-	-	13,803,920
	23,443,871	2,079,949	(8,086)	-	25,515,734
Capital assets, net	$21,486,073	$ (868,606)	$ (134,600)	$ -	$20,482,867

	2022				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 561,651	$ 32,310	$ -	$ -	$ 593,961
Land improvements	185,481	-	-	-	185,481
Buildings and improvements	25,182,519	787,074	-	(1,595)	25,967,998
Equipment	14,658,078	1,706,522	-	30,014	16,394,614
Construction in progress	1,816,309	-	-	(28,419)	1,787,890
	42,404,038	2,525,906	-	-	44,929,944
Less accumulated depreciation					
Land improvements	70,199	21,461	-	-	91,660
Buildings and improvements	11,358,385	1,190,152	-	(2,208,135)	10,340,402
Equipment	10,154,202	649,472	-	2,208,135	13,011,809
	21,582,786	1,861,085	-	-	23,443,871
Capital assets, net	$20,821,252	$ 664,821	$ -	$ -	$21,486,073

Construction in progress at September 30, 2022 consisted primarily of ongoing upgrades to the District's technology infrastructure and clinic building space that were funded from available cash.

Lease assets activity for the years ended September 30 was:

	2023				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Leased assets	$ 180,976	$ -	$ (111,884)	$ -	$ 69,092
Less accumulated amortization	143,901	15,575	(111,884)		47,592
Lease assets, net	$ 37,075	$ (15,575)	$ -	$ -	$ 21,500

	2022				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Leased assets	$ 162,976	$ 18,000	$ -	$ -	$ 180,976
Less accumulated amortization	121,148	22,753	-	-	143,901
Lease assets, net	$ 41,828	$ (4,753)	$ -	$ -	$ 37,075

Subscription assets activity for the years ended September 30 was:

	2023				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Subscription assets	$ -	$ 416,589	$ -	$ -	$ 416,589
Less accumulated amortization	-	75,718	-	-	75,718
Subscription assets, net	$ -	$ 340,871	$ -	$ -	$ 340,871

Note 7: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at September 30 consisted of:

	2023	2022
Payable to suppliers and contractors	$ 1,217,918	$ 1,818,548
Payable to nursing facility managers	6,452,600	6,075,700
Payable to employees (including payroll taxes and benefits)	1,085,775	1,300,869
Other	736	3,690
	$ 8,757,029	$ 9,198,807

Note 8: Medical Malpractice Claims

The District is a unit of government covered by the Texas Tort Claims Acts which, by statute, limits its malpractice liability to $100,000 per person and $300,000 per claim. To cover such risks, the District purchases medical malpractice insurance under a claims made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the District's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 9: Long-term Obligations

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

	2023				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Notes payable	$ 5,806,408	$ -	$(5,806,408)	$ -	$ -
Total long-term debt	5,806,408	-	(5,806,408)	-	-
Lease liabilities	39,082	-	(25,922)	13,160	4,181
Subscription liabilities	-	416,589	(106,812)	309,777	104,731
Total other long-term liabilities	39,082	416,589	(132,734)	322,937	108,912
	$ 5,845,490	$ 416,589	$(5,939,142)	$ 322,937	$ 108,912

	2022				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Notes Payable	$ 6,059,312	$ -	$ (252,904)	$ 5,806,408	$ 5,306,507
Revenue bonds payable					
Bonds	7,641,000	-	(7,641,000)	-	-
Total long-term debt	13,700,312	-	(7,893,904)	5,806,408	5,306,507
Lease liabilities	46,775	18,000	(25,693)	39,082	25,914
Total other long-term liabilities	46,775	18,000	(25,693)	39,082	25,914
	$ 13,747,087	$ 18,000	$(7,919,597)	$ 5,845,490	$ 5,332,421

Notes Payable

The District held the following notes payable with banks:

1) A note payable for $399,500 to finance the purchase of a clinic building in Devine, Texas. The note payable to bank was extended and is due in installments of principal and interest payable monthly at the rate of 3.6% in the amount of $2,337 through December 2023 and the remaining principal due in full on the maturity date in January 2024. This note was fully repaid as of September 30, 2023.

2) A note payable for $381,172 to finance the expansion of a clinic building in Devine, Texas. The note payable to bank was extended and is due in installments of principal and interest payable monthly at the rate of 3.6% in the amount of $2,230 through January 2025 with the remaining principal due in full on the maturity date in February 2025. This note was fully repaid as of September 30, 2023.

3) A note payable for $399,016 to finance the purchase of a clinic building in Castroville, Texas. The note payable term was extended and is due in installments of principal and interest payable monthly at the rate of 3.25% in the amount of $1,998 through June 2023 and the remaining principal due in full on the maturity date in July 2023. This note was fully repaid as of September 30, 2023.

4) A note payable for $416,800 to finance the purchase of a building in Hondo, Texas. The note payable to bank was extended and is due in installments of principal and interest payable monthly at the rate of 3.25% in the amount of $2,387 through August 2023 with the remaining principal due in full on the maturity date in September 2023. This note was fully repaid as of September 30, 2023.

5) A note payable for $4,969,723 to finance the renovation of a clinic building in Hondo, Texas. The note payable to bank was extended and is due in installments of principal and interest payable monthly at the rate of 4.4% in the amount of $31,308 through November 2022 with the remaining principal due in full on the maturity date in December 2022. This note was fully repaid as of September 30, 2023.

Revenue Bonds Payable – Series 2006

In November 2006, the District secured two bonds from the United States Department of Agriculture (USDA) in the amount of $11,500,000 in "Revenue Bonds Series 2006-A" at 4.125% interest and $812,000 in "Revenue Bonds Series 2006-B" at 4.375% interest, maturing in 2048. The proceeds were used for the purpose of renovating and constructing a new facility in Hondo, Texas. The Series 2006 Bonds are secured by the net revenues of the District.

On October 1, 2021, the District fully paid off the outstanding bonds and accrued interest in the amount of $7,641,000 for principal and $49,400 for accrued interest on the bonds.

Lease Liabilities

The District leases equipment, the terms of which expire in various years through 2024. The following is a schedule by year of payments under the leases as of September 30, 2023:

Year Ending September 30,	Total	Principal	Interest
2024	$ 4,481	$ 4,181	$ 300
2025	3,834	3,637	197
2026	3,834	3,732	102
2027	1,625	1,610	15
	$ 13,774	$ 13,160	$ 614

Subscription Liability

The District has various subscription arrangements, the terms of which expire in various years through 2027. The subscriptions were measured at the present value of subscription payments expected to be made during the subscription arrangement term. Variable payments based upon the use of the underlying asset are not included in the subscription liability because they are not fixed in substance. During the years ended September 30, 2023 and 2022, the District recognized approximately $1,156,000 and $415,000, respectively, of subscription expense for variable payments, short-term and cancellable agreements that are not included in the measurement of the subscription liability.

The following is a schedule by year of payments under the SBITAs as of September 30, 2023:

Year Ending September 30,	Total	Principal	Interest
2024	$ 114,326	$ 104,731	$ 9,595
2025	91,699	85,815	5,884
2026	81,536	78,771	2,765
2027	40,765	40,460	305
	$ 328,326	$ 309,777	$ 18,549

Note 10: Nursing Home Operations

During the years ended September 30, 2014 through 2021, the District entered a series of lease and management agreements with nursing home operators that resulted in the District becoming the legal operator of six 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 collection services. All patient revenue from the facilities is paid to the District. From these collections, the District pays the managers for all facility costs and the management fees pursuant to the agreements. The management agreements have initial terms of 2 years. The District is obligated to pay a base management fee ranging from 4% to 5% of ordinary revenue with potential incentive bonuses ranging from 50% to 60% of net operating income. However, District payments to the manager are generally limited to the amount of net patient revenue received from the facilities. At its option, the District may pay additional amounts to the manager above the amounts collected for patient revenue.

Note 11: Pension Plan

The District contributes to a defined contribution pension plan covering substantially all full-time employees meeting age and service requirements. Pension expense is recorded for the amount of the District's required contributions, determined in accordance with the terms of the plan. The plan is administered by a board of trustees appointed by the District's governing body. The plan provides retirement and death benefits to plan members and their beneficiaries, and the employees are immediately vested in the District's contribution. Benefit provisions are contained in the plan document and were established and can be amended by action of the District's governing body. Contribution rates expressed as a percentage of covered payroll and contributions actually made were as follows:

	2023	2022
Participant salaries	$ 9,961,575	$ 9,627,077
Contributions by employees	$ 582,888	$ 245,655
Percent of participant salaries	5.85%	2.55%
Contributions by the District	$ 170,438	$ 169,543
Percent of participant salaries	1.71%	1.76%

Note 12: Charity Care

Charges excluded from revenue under the District's charity care policy were approximately $2,300,000 and $2,800,000 for 2023 and 2022, respectively. The costs of charity care provided under the District's charity care policy were approximately $925,000 and $1,165,000 for 2023 and 2022, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 13: Risks and Uncertainties

Physicians

The District is dependent on local physicians practicing in its service area to provide admissions and utilize the District's services on an outpatient basis. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on the District's operations.

Suppliers

The District is dependent on a third-party provider of emergency care services, whose contract is renewed annually. Failure to obtain favorable renewal of this contract or locate alternative suppliers could result in a future disruption of services to patients.

Note 14: Commitments and Contingencies

Litigation

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

Management Agreement

The District entered into a management agreement with Methodist Healthcare System, Ltd., LLP (Methodist) to develop and maintain credible management and administrative leadership personnel on-site at the District; to assist in the provision of a consistent-level of quality services at the lowest possible costs to patients of the District and the constituency of the District; to assist the District in operating on a sound financial basis and to maintain effective financial accounting and reporting systems; to recruit and retain physicians needed by the community to join and continue as members of the medical staff of the District; to practice medicine in Medina County and other communities served by the District; and to assist in the establishment of goals and objectives in connection with the continued operation of the District's facilities, including, without limitation, ensuring continuing access to the District, physician and other health care services for Medina County residents in or near the communities where they live or work, particularly in those communities located in Medina County.

The original agreement became effective April 1, 2011 and remained in effect until March 31, 2017 at which time a new agreement was entered to remain in effect until March 31, 2021. The District pays an annual management fee to Methodist of $154,000 and reimburses the costs of executive management employees and other related costs during the term of the agreement. In February 2021, the agreement was amended, changing the annual management fee to $101,000, at which time a new agreement was entered to remain in effect until March 31, 2025. The District or Methodist may terminate the agreement at any time.

Note 15: COVID-19 Pandemic and 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.

The extent of the COVID-19 pandemic's adverse effect on the District's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the District's control and ability to forecast. Because of these and other uncertainties, the District cannot estimate the length or severity of the effect of the pandemic on the District's business.

CARES Act Funds

From inception of the pandemic through September 30, 2023, the District received approximately $12,212,000 of distributions from the *Coronavirus Aid, Relief, and Economic Security* (CARES) *Act* Provider Relief Fund and Coronavirus Relief Fund (collectively CARES Act Funds). During the years ended September 30, 2023 and 2022, the District received approximately $933,000 and $1,738,000 of distributions from the CARES Act Funds. These distributions from the CARES Act Funds are not subject to repayment, provided the District is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services.

The District is accounting for such payments as voluntary nonexchange transactions. Payments are recognized as eligibility requirements have been met. Based on an analysis of the compliance and reporting requirements of the CARES Act Funds and the effect of the pandemic on the District's operating revenues and expenses through September 30, 2023 and 2022, the District recognized approximately $3,029,000 and $2,100,000, respectively, of revenue related to the CARES Act Funds which are included in noncapital grants and gifts on the statements of revenues, expenses, and changes in net position. The unrecognized amounts of approximately $0 and $2,500,000 as of September 30, 2023 and 2022, respectively, are recorded as unearned revenue in the accompanying balance sheets.

Guidance for reporting use of CARES Act Funds payments received has changed significantly since distributions were authorized through the CARES Act in March 2020. The District has recognized revenue from the CARES Act Funds based on guidance issued by HHS as of September 30, 2023 and any clarifications issued by HHS subsequent to year-end. The District will continue to monitor compliance with the terms and conditions of the CARES Act Funds and the effect of the pandemic on the District's revenues and expenses. The terms and conditions governing the CARES Act Funds are complex and subject to interpretation and change. If the District is unable to attest to or comply with current or future terms and conditions the District's ability to retain some or all of the distributions received may be affected. Additionally, the amounts recorded in the financial statements compared to the District's CARES Act Funds reporting could differ. CARES Act Funds payments are subject to government oversight, including potential audits.