

**Medina County Hospital District**  
**d.b.a. Medina Regional Hospital**  
Independent Auditor's Report and Financial Statements  
September 30, 2020 and 2019

**Medina County Hospital District**  
**d.b.a. Medina Regional Hospital**  
**September 30, 2020 and 2019**

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## Independent Auditor's Report

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

### Report on the Financial Statements

We have audited the accompanying financial statements of Medina County Hospital District d.b.a. Medina Regional Hospital (the District), as of and for the years ended September 30, 2020 and "2019 As Adjusted", and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

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

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

### *Auditor's Responsibility*

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District, as of September 30, 2020 and 2019, 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.

### ***Emphasis of Matter***

As discussed in *Note 17*, the District adopted Governmental Accounting Standards Board Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### ***Other Reporting Required by Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated March 24, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

**BKD, LLP**

Waco, Texas  
March 24, 2021

# **Medina County Hospital District d.b.a. Medina Regional Hospital Management's Discussion and Analysis Years Ended September 30, 2020 and 2019**

## ***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, 2020 and 2019. It should be read in conjunction with the accompanying financial statements of the District.

## ***Financial Highlights***

- Cash and investments increased in 2020 by \$12,626,623 or 51%, and increased in 2019 by \$3,761,850 or 18%.
- The District reported an operating income of \$2,893,325 in 2020 and \$1,035,909 in 2019.
- Net nonoperating revenues increased by \$1,437,268 in 2020 compared to 2019, and increased by \$245,302 in 2019 compared to 2018.
- The District's net position increased in 2020 by \$7,033,783 or 24%, and increased by \$3,739,099 or 14% in 2019.

## ***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, liabilities and deferred inflows and outflows of resources - 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 its assets, liabilities and deferred inflows and outflows of resources reported in the balance sheets. The District's net position increased in 2020 by \$7,033,783 and increased in 2019 by \$3,739,099, respectively. Net position increased in 2018 by \$2,849,497.

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

	<b>2020</b>	<b>2019 As Adjusted</b>	<b>2018 As Adjusted</b>
<b>Assets</b>			
Cash and cash equivalents	\$ 26,207,958	\$ 13,853,414	\$ 12,269,119
Restricted cash	732,486	729,450	726,335
Certificates of deposit	10,632,532	10,363,489	8,189,049
Patient accounts receivable, net	5,577,971	4,901,251	5,261,963
Other current assets	6,717,190	3,804,464	3,573,642
Capital assets, net	19,892,213	19,127,348	17,512,445
Other assets	82,100	129,542	66,000
	<u>\$ 69,842,450</u>	<u>\$ 52,908,958</u>	<u>\$ 47,598,553</u>
<b>Liabilities</b>			
Long-term debt	\$ 15,667,523	\$ 12,041,940	\$ 10,463,827
Other current and noncurrent liabilities	17,575,954	11,293,438	11,331,537
	<u>33,243,477</u>	<u>23,335,378</u>	<u>21,795,364</u>
<b>Deferred Inflows of Resources - Leases</b>	<u>22,902</u>	<u>31,292</u>	<u>-</u>
<b>Net Position</b>			
Net investment in capital assets	1,365,997	3,133,482	3,069,045
Restricted - expendable for debt service	732,486	729,450	726,335
Unrestricted	34,477,588	25,679,356	22,007,809
	<u>36,576,071</u>	<u>29,542,288</u>	<u>25,803,189</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 69,842,450</u>	<u>\$ 52,908,958</u>	<u>\$ 47,598,553</u>

Significant changes in the District's cash and investments in 2020 and 2019 was principally driven by receipt of approximately \$7.8 million from Provider Relief Funds, \$2.7 million under the Paycheck Protection Program, as well as current year excess of revenues over expenses.

## **Operating Results and Changes in the District's Net Position**

In 2020, the District's net position increased by \$7,033,783, as shown in Table 2. This is made up of several different components and represents an increase of \$3,294,684, compared with the increase in net position for 2019 of \$3,739,099. The District's change in net position increased \$889,602 in 2019 compared to 2018.

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

	<b>2020</b>	<b>2019</b>	<b>2018</b>
<b>Operating Revenues</b>			
Net patient service revenue	\$ 31,097,555	\$ 28,278,547	\$ 26,746,655
Nursing facility revenues	34,718,353	34,574,363	29,128,113
Other	517,216	572,478	497,030
Total operating revenues	<u>66,333,124</u>	<u>63,425,388</u>	<u>56,371,798</u>
<b>Operating Expenses</b>			
Salaries, wages and employee benefits	14,843,670	14,052,064	13,615,208
Purchased services and professional fees	7,575,102	7,397,265	6,737,996
Supplies and other	5,538,018	5,605,929	5,488,787
Nursing facility expenses	33,977,345	33,794,656	28,383,837
Depreciation and amortization	1,505,664	1,539,565	1,829,361
Total operating expenses	<u>63,439,799</u>	<u>62,389,479</u>	<u>56,055,189</u>
<b>Operating Income</b>	<u>2,893,325</u>	<u>1,035,909</u>	<u>316,609</u>
<b>Nonoperating Revenues (Expenses)</b>			
Property taxes	3,519,668	2,191,738	2,006,541
Investment income	469,684	298,297	240,577
Interest expense	(631,531)	(499,288)	(515,376)
Noncapital grants and gifts	374,479	339,920	5,214
Contributed services	408,158	372,523	720,932
Total nonoperating revenues	<u>4,140,458</u>	<u>2,703,190</u>	<u>2,457,888</u>
<b>Excess of Revenues Over Expenses Before Capital Grants and Gifts</b>	7,033,783	3,739,099	2,774,497
<b>Capital Grants and Gifts</b>	<u>-</u>	<u>-</u>	<u>75,000</u>
<b>Increase in Net Position</b>	<u>\$ 7,033,783</u>	<u>\$ 3,739,099</u>	<u>\$ 2,849,497</u>

### **Operating Income**

The first component of the overall change in the District's net position is its operating income - generally, the difference between net patient service and the expenses incurred to perform those services. Operating income in 2020 increased by \$1,857,416, or 179%, to the operating income reported in 2019. Operating income in 2019 increased by \$719,300, or 227%, from the operating income reported in 2018.

The primary components of 2020 operating income are:

- Increase in net patient service revenue of \$2,819,008, or 10%, attributable to an increase in both inpatient and outpatient revenues.
- Increase in salaries, wages and employee benefits expense of \$791,606, or 6%, due to the addition of new employees in the current year.

The primary components of 2019 operating income are:

- Increase in net patient service revenue of \$1,531,892, or 6%, attributable to an increase in outpatient revenues.
- Decrease in depreciation and amortization of \$289,796, or 16%, due to assets becoming fully depreciated in the current year.

### ***Nonoperating Revenues (Expenses)***

Nonoperating revenues (expenses) consist primarily of property taxes levied by the District, noncapital grants and gifts, interest income and interest expense. Property tax revenue increased from \$2,191,738 in 2019 to \$3,519,668 in 2020. The District received net contributed services of \$408,158 and \$372,523 for 2020 and 2019, respectively, from agreements with affiliated healthcare providers. The District received noncapital grants and gifts from various entities in 2020 and 2019. Noncapital grants and gifts revenue was \$374,479 and \$339,920 in 2020 and 2019, respectively. Interest expense increased along with the increased debt as discussed in *Note 10*.

### ***The District's Cash Flows***

In both 2020 and 2019, cash flows increased compared to an increase in net position due primarily to proceeds received under both the Provider Relief Fund and Paycheck Protection Program as discussed at *Note 19*.

### ***Capital Asset and Debt Administration***

#### **Capital Assets**

At the end of 2020 and 2019, the District had \$19,892,213 and \$19,127,348, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 7* to the financial statements.

#### **Debt**

At the end of 2020 and 2019, the District had \$18,517,759 and \$15,256,808, respectively, in outstanding debt as detailed in *Note 10* to the financial statements. The increase in outstanding debt in 2020 is attributable to the Paycheck Protection Program note payable of \$2.7 million as discussed at *Note 19* and the additional draws on the note payable for construction.



### ***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, 2020 and 2019**

**Assets**

	<b>2020</b>	<b>2019 As Adjusted</b>
<b>Current Assets</b>		
Cash and cash equivalents	\$ 26,207,958	\$ 13,853,414
Certificates of deposit	10,632,532	10,363,489
Patient accounts receivable, net of allowance; 2020 - \$3,810,000; 2019 - \$4,570,000	5,577,971	4,901,251
Estimated amounts due from third-party payers	171,596	559,886
Leases receivable	21,750	31,402
Medicaid supplemental program receivable	129,396	228,917
Other receivables	5,055,174	1,662,788
Supplies	909,283	672,446
Property tax receivable	85,583	77,753
Prepaid expenses and other	344,408	571,272
Total current assets	49,135,651	32,922,618
<b>Restricted Cash</b>	732,486	729,450
<b>Capital Assets, Net</b>	19,892,213	19,127,348
<b>Lease Assets, Net</b>	82,100	129,542
Total assets	\$ 69,842,450	\$ 52,908,958

## Liabilities, Deferred Inflows of Resources, and Net Position

	<u>2020</u>	<u>2019 As Adjusted</u>
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 2,850,236	\$ 3,214,868
Current portion of lease liabilities	41,256	51,770
Accounts payable	4,302,737	5,265,825
Estimated amounts due to third-party payers	724,022	885,445
Patient credit balances	498,128	437,812
Accrued expenses	1,558,596	1,347,315
Unearned revenue - provider relief funds	<u>7,551,678</u>	<u>-</u>
Total current liabilities	<u>17,526,653</u>	<u>11,203,035</u>
<b>Other Liabilities</b>		
Long-term debt	15,667,523	12,041,940
Lease liabilities	<u>49,301</u>	<u>90,403</u>
Total other liabilities	<u>15,716,824</u>	<u>12,132,343</u>
Total liabilities	<u>33,243,477</u>	<u>23,335,378</u>
<b>Deferred Inflows of Resources - Leases</b>	<u>22,902</u>	<u>31,292</u>
<b>Net Position</b>		
Net investment in capital assets	1,365,997	3,133,482
Restricted - expendable for debt service	732,486	729,450
Unrestricted	<u>34,477,588</u>	<u>25,679,356</u>
Total net position	<u>36,576,071</u>	<u>29,542,288</u>
Total liabilities, deferred inflows of resources, and net position	<u>\$ 69,842,450</u>	<u>\$ 52,908,958</u>

**Medina County Hospital District**  
**d.b.a. Medina Regional Hospital**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended September 30, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2020 – \$6,294,000, 2019 – \$5,730,000	\$ 31,097,555	\$ 28,278,547
Net nursing facility revenue	34,718,353	34,574,363
Other	517,216	572,478
Total operating revenues	66,333,124	63,425,388
<b>Operating Expenses</b>		
Salaries and wages	13,247,177	12,463,184
Employee benefits	1,596,493	1,588,880
Purchased services and professional fees	7,575,102	7,397,265
Supplies and other	5,538,018	5,605,929
Nursing facility expenses	33,977,345	33,794,656
Depreciation and amortization	1,505,664	1,539,565
Total operating expenses	63,439,799	62,389,479
<b>Operating Income</b>	2,893,325	1,035,909
<b>Nonoperating Revenues (Expenses)</b>		
Property tax revenue	3,519,668	2,191,738
Investment income	469,684	298,297
Interest expense	(631,531)	(499,288)
Noncapital grants and gifts	374,479	339,920
Contributed services	408,158	372,523
Total nonoperating revenues	4,140,458	2,703,190
<b>Increase in Net Position</b>	7,033,783	3,739,099
<b>Net Position, Beginning of Year</b>	29,542,288	25,803,189
<b>Net Position, End of Year</b>	\$ 36,576,071	\$ 29,542,288

**Medina County Hospital District**  
**d.b.a. Medina Regional Hospital**  
**Statements of Cash Flows**  
**Years Ended September 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u> <u>As Adjusted</u>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 65,525,892	\$ 63,304,248
Payments to suppliers and contractors	(46,930,831)	(46,307,831)
Payments to employees	(14,633,784)	(14,411,800)
Other receipts	4,647,800	698,953
	<u>8,609,077</u>	<u>3,283,570</u>
<b>Noncapital Financing Activities</b>		
Property taxes supporting operations	3,511,838	2,183,163
Noncapital grants and gifts	374,479	61,310
Proceeds from issuance of paycheck protection program loan	2,706,000	-
	<u>6,592,317</u>	<u>2,244,473</u>
<b>Capital and Related Financing Activities</b>		
Capital grants and gifts	-	75,000
Proceeds from issuance of debt	2,073,717	1,432,206
Principal paid on long-term debt	(1,518,766)	(320,917)
Interest paid on notes payable, long-term debt and leases	(630,136)	(502,939)
Principal and interest payments received on leases receivable	29,971	9,720
Principal paid on leases payable	(51,616)	(59,830)
Purchase of capital assets	(2,947,625)	(2,697,730)
	<u>(3,044,455)</u>	<u>(2,064,490)</u>
<b>Investing Activities</b>		
Interest income	200,641	298,297
Purchase of certificates of deposit	-	(2,174,440)
	<u>200,641</u>	<u>(1,876,143)</u>
<b>Increase in Cash and Cash Equivalents</b>	12,357,580	1,587,410
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>14,582,864</u>	<u>12,995,454</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 26,940,444</u>	<u>\$ 14,582,864</u>

**Medina County Hospital District**  
**d.b.a. Medina Regional Hospital**  
**Statements of Cash Flows (Continued)**  
**Years Ended September 30, 2020 and 2019**

	<b>2020</b>	<b>2019 As Adjusted</b>
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>		
Cash and cash equivalents	\$ 26,207,958	\$ 13,853,414
Restricted cash	732,486	729,450
Total cash and cash equivalents	\$ 26,940,444	\$ 14,582,864
 <b>Reconciliation of Operating Income to Net Cash Provided by Operating Activities</b>		
Operating income	\$ 2,893,325	\$ 1,035,909
Depreciation and amortization	1,505,664	1,539,565
Provision for uncollectible accounts	6,293,610	5,730,167
Contributed services	408,158	372,523
Changes in operating assets and liabilities		
Patient accounts receivable	(6,970,330)	(5,369,455)
Medicaid supplemental program receivable	99,521	290,569
Estimated amounts due to/from and third-party payers	226,867	(28,806)
Accounts payable and accrued expenses	(751,807)	188,042
Other assets and liabilities	4,904,069	(474,944)
Net cash provided by operating activities	\$ 8,609,077	\$ 3,283,570
 <b>Supplemental Cash Flows Information</b>		
Noncash contributed services	\$ 408,158	\$ 372,523
Capital assets acquisitions included in accounts payable	\$ -	\$ 724,537
Lease assets acquired	\$ -	\$ 126,078

**Medina County Hospital District**  
**d.b.a. Medina Regional Hospital**  
**Notes to Financial Statements**  
**September 30, 2020 and 2019**

**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. During 2014, the District became the operator of three area nursing homes, and during 2017 became the operator of an additional two nursing homes.

***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).

**Medina County Hospital District**  
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**Notes to Financial Statements**  
**September 30, 2020 and 2019**

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 2020 or 2019 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.

***Cash Equivalents***

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2020 and 2019, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

***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 4.9% in 2020 and 3.3% in 2019 of its financial support from property taxes. During 2020 and 2019, 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 2020 and 2019 on 100% of the appraised property value at the rate of \$0.1000 and \$0.0645 per \$100 valuation for 2020 and 2019, respectively. Revenue from property taxes is recognized in the year for which the taxes are levied.



**Medina County Hospital District**  
**d.b.a. Medina Regional Hospital**  
**Notes to Financial Statements**  
**September 30, 2020 and 2019**

***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.

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***Capital and Lease Asset Impairment***

The District evaluates capital and lease assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital or lease asset has occurred.

No asset impairment was recognized during the years ended September 30, 2020 and 2019.

***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.

***Deferred Inflows of Resources***

The District reports an acquisition of net position that is applicable to a future reporting period as deferred inflows of resources in a separate section of its balance sheet.

***Net Position***

Net position of the District is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net position 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

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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.

**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 District is certified by Medicare as a critical access hospital (CAH). Medicare inpatient and outpatient reimbursement as a CAH is based on the defined allowable costs of services rendered. CAH certification places several restrictions on the District's operations, including a 96-hour average annual acute-care length of stay restriction and a limit of 25 medical/surgical beds and 10 psychiatric beds. The District is reimbursed for certain services at tentative rates, with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor. The District's Medicare cost reports have been audited by the Medicare administrative contractor through 2018.

*Medicaid.* Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed primarily at prospectively determined rates.

Approximately 60% and 58% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2020 and 2019, 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.

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

***Medicaid Supplemental Payment Programs***

The District participates in the state of Texas' disproportionate share (DSH) program. This funding program is designed to compensate hospitals for the Medicaid upper payment limit gap, which is approximately equal to the difference in what Medicare would have paid for Medicaid charges and what Medicaid actually paid and is funded through intergovernmental transfers (IGT) made by governmental entities like the District. This funding program has been impacted by the demonstration project discussed in the following paragraph. The District recognized DSH revenue of approximately \$518,000 and \$698,000 in 2020 and 2019, respectively, which is reflected as net patient service revenue in the statements of revenues, expenses and changes in net position.

On December 12, 2011, the United States Department of Health and Human Services (HHSC) approved a Medicaid Section 1115(a) demonstration entitled "Texas Health Transformation and Quality Improvement Program" (Waiver). The Waiver expanded existing Medicaid managed care programs and established two funding pools that assist providers with uncompensated care costs (UC Pool) and promote health system transformation (DSRIP Pool). The revenue from the two funding pools is recognized as earned throughout the related demonstration year. The Waiver was originally effective from December 12, 2011 to September 30, 2016 and extended through December 2017 as HHSC and the Center 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 requires a change in the methodology used to allocate UC funds and a phase out of the DSRIP program over the five-year period. On November 30, 2020, CMS approved an additional extension to extend the Waiver for an additional ten-year period through September 30, 2030. This latest extension ends the DSRIP pool effective September 30, 2021, expands and adds other direct payment programs and makes other administrative changes to reflect CMS policy changes. The impact of these changes has not yet been determined, but could have an adverse impact on the District's operating results.

Under the Waiver, eligibility to receive UC Pool or DSRIP Pool payments requires participation in a regional health care partnership. Within a partnership, participants include governmental entities providing public funds known as intergovernmental transfers (IGTs), Medicaid providers and other stakeholders. Participants develop a regional plan that identifies partners, community needs, the proposed projects to meet those needs and funding distribution. Each partnership must have one anchoring entity, which acts as a primary point of contact for HHSC in the region and is responsible for seeking regional stakeholder engagement and coordinating development of a regional plan.

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Total funding recognized through the Texas Medicaid supplemental funding programs was approximately \$2,685,000 and \$1,412,000 for the years ended September 30, 2020 and 2019, respectively. This revenue is reflected as net patient service revenue in the statements of revenues, expenses and changes in net position. Net patient service revenue decreased approximately \$464,000 in 2019 due to changes in estimated overpayments from prior years based on estimates of overpayments on pending reconciliations.

The funding from the DSH Program and the UC Pool has historically been limited by a federally determined Hospital Specific Limit (HSL) calculation and is subject to recoupment based on subsequent audit results. There has been litigation in U.S. district and circuit appellate courts regarding the legislative intent of certain aspects of the HSL calculation. On August 13, 2019, the D.C. Circuit Court of Appeals issued an opinion in the case of *Children's Hospital Association of Texas vs. Azar* that held that the HSL could be reduced by payments received from other third-party payers related to Medicaid eligible patients and remanded the case back to the District Court. The District Court's final ruling on this case was issued in November 2020, and hospitals in Texas lost the challenge to the HHS ruling which was reinstated back to the rule's original 2017 effective date. The District has recorded an expected overpayment related to this ruling of approximately \$293,000, which is included in estimated amounts due to third-party payers on the balance sheet.

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

During the fiscal year 2010, the District signed an indigent care affiliation agreement with the Service Organization of San Antonio (the Organization), a not-for-profit corporation and affiliated hospital. This agreement is intended to increase funding for the Medicaid population and to access federal funding for the indigent population through the Texas Medicaid Supplemental Payment Program also known as the Private Upper Payment Limit Program. Under this program, the District contributes certain government funds to the state of Texas. The Organization then provides care to the Medicaid and non-Medicaid indigent in Medina County. These services were valued at approximately \$2,003,000 and \$2,549,000 at September 30, 2020 and 2019, respectively. As part of the affiliation agreement, the District provided approximately \$1,685,000 and \$1,300,000 in funding to the program for fiscal years 2020 and 2019, respectively.

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. Based on CMS's review, changes may be made to how future payments are made under the UC Pool, or previous UC Pool payments may be modified. Management is not currently able to estimate the impact of these reviews on its financial statements.

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**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 2020 and 2019 was approximately \$1,614,000 and \$1,631,000, respectively, and is included in nursing facility revenue in the statements of revenues, expenses, and changes in net position.

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 its 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, 2020 and 2019, none of the District's bank balances of \$37,730,719 and \$25,079,988, respectively, were exposed to custodial credit risk.

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**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:

	<u>2020</u>	<u>2019</u>
Medicare	\$ 3,423,591	\$ 2,348,223
Medicaid	1,812,662	1,643,727
Other third-party payers	1,780,614	1,685,363
Patients	<u>2,367,252</u>	<u>3,798,409</u>
	9,384,119	9,475,722
Allowances for uncollectible accounts	<u>(3,806,148)</u>	<u>(4,574,471)</u>
	<u>\$ 5,577,971</u>	<u>\$ 4,901,251</u>

**Note 6: Leases Receivable**

The District leases a portion of its office space to various third parties, the terms of which expire in 2021 with the option to renew. The leases were measured based upon the Prime Rate Index at lease commencement.

Revenue recognized under lease contracts during the years ended September 30, 2020 and 2019, were \$29,970 and \$9,720, respectively, which includes both lease revenue and interest.

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**Note 7: Capital and Lease Assets**

Capital asset activity for the years ended September 30 was:

	<b>2020</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 444,135	\$ -	\$ -	\$ -	\$ 444,135
Land improvements	112,595	72,886	-	-	185,481
Buildings and improvements	19,085,203	9,988	-	5,548,765	24,643,956
Equipment	13,567,859	534,812	(321,640)	239,825	14,020,856
Construction in progress	4,734,765	1,605,537	-	(5,788,590)	551,712
	<u>37,944,557</u>	<u>2,223,223</u>	<u>(321,640)</u>	<u>-</u>	<u>39,846,140</u>
Less accumulated depreciation					
Land improvements	33,353	15,387	-	-	48,740
Buildings and improvements	9,414,625	854,916	-	-	10,269,541
Equipment	9,369,231	588,055	(321,640)	-	9,635,646
	<u>18,817,209</u>	<u>1,458,358</u>	<u>(321,640)</u>	<u>-</u>	<u>19,953,927</u>
Capital assets, net	<u>\$ 19,127,348</u>	<u>\$ 764,865</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,892,213</u>
	<b>2019</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 444,135	\$ -	\$ -	\$ -	\$ 444,135
Land improvements	112,595	-	-	-	112,595
Buildings and improvements	19,084,203	1,000	-	-	19,085,203
Equipment	12,997,865	569,994	-	-	13,567,859
Construction in progress	2,148,052	2,586,713	-	-	4,734,765
	<u>34,786,850</u>	<u>3,157,707</u>	<u>-</u>	<u>-</u>	<u>37,944,557</u>
Less accumulated depreciation					
Land improvements	18,729	14,624	-	-	33,353
Buildings and improvements	8,544,200	870,425	-	-	9,414,625
Equipment	8,720,398	648,833	-	-	9,369,231
	<u>17,283,327</u>	<u>1,533,882</u>	<u>-</u>	<u>-</u>	<u>18,817,209</u>
Capital assets, net	<u>\$ 17,503,523</u>	<u>\$ 1,623,825</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 19,127,348</u>



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Lease assets activity for the years ended September 30 was:

	<b>2020</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Leased assets	\$ 192,129	\$ -	\$ (29,153)	\$ -	\$ 162,976
Less accumulated depreciation	62,587	47,442	(29,153)	-	80,876
Lease assets, net	<u>\$ 129,542</u>	<u>\$ (47,442)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 82,100</u>

	<b>2019</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Leased assets	\$ 95,204	\$ 126,078	\$ (29,153)	\$ -	\$ 192,129
Less accumulated depreciation	36,400	55,340	(29,153)	-	62,587
Lease assets, net	<u>\$ 58,804</u>	<u>\$ 70,738</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 129,542</u>

**Note 8: Accounts Payable and Accrued Expenses**

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

	<b>2020</b>	<b>2019</b>
Payable to suppliers and contractors	\$ 4,302,737	\$ 5,265,825
Payable to employees (including payroll taxes and benefits)	1,493,070	1,280,394
Other	65,526	66,921
	<u>\$ 5,861,333</u>	<u>\$ 6,613,140</u>

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**Note 9: Medical Malpractice Claims**

The District is a unit 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 District. The District, from time to time, may be subject to claims and suits for other damages as well. In the opinion of management, the ultimate resolution of the above types of legal proceedings will not have a material effect on the District's financial position or results of operations.

**Note 10: Long-term Obligations**

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

	2020					
	Beginning Balance	Additions	Deductions	Transfers	Ending Balance	Current Portion
Long-term debt						
Notes payable	\$ 2,626,802	969,723	\$(1,315,766)	\$ 4,000,000	\$ 6,280,759	\$ 964,128
PPP Loan	-	2,706,000	-	-	2,706,000	1,675,108
Line of credit	2,896,006	1,103,994	-	(4,000,000)	-	-
Revenue bonds payable						
Series 2006A and 2006B Bonds	9,734,000	-	(203,000)	-	9,531,000	211,000
Total long-term debt	<u>15,256,808</u>	<u>4,779,717</u>	<u>(1,518,766)</u>	<u>-</u>	<u>18,517,759</u>	<u>2,850,236</u>
Lease liability	<u>142,173</u>	<u>-</u>	<u>(51,616)</u>	<u>-</u>	<u>90,557</u>	<u>41,256</u>
	<u>\$ 15,398,981</u>	<u>\$ 4,779,717</u>	<u>\$(1,570,382)</u>	<u>\$ -</u>	<u>\$ 18,608,316</u>	<u>\$ 2,891,492</u>

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	2019					
	Beginning Balance	Additions	Deductions	Transfers	Ending Balance	Current Portion
Long-term debt						
Notes Payable	\$ 2,752,719	\$ -	\$ (125,917)	\$ -	\$ 2,626,802	\$ 115,862
Line of credit	1,463,800	1,432,206	-	-	2,896,006	2,896,006
Revenue bonds payable						
Series 2006A and 2006B Bonds	9,929,000	-	(195,000)	-	9,734,000	203,000
Total long-term debt	<u>14,145,519</u>	<u>1,432,206</u>	<u>(320,917)</u>	<u>-</u>	<u>15,256,808</u>	<u>3,214,868</u>
Lease liability	<u>75,925</u>	<u>126,078</u>	<u>(59,830)</u>	<u>-</u>	<u>142,173</u>	<u>51,770</u>
	<u>\$ 14,221,444</u>	<u>\$ 1,558,284</u>	<u>\$ (380,747)</u>	<u>\$ -</u>	<u>\$ 15,398,981</u>	<u>\$ 3,266,638</u>

**Notes Payable and Line of Credit**

The District holds 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 due in installments of principal and interest payable monthly at the rate of 3.6% in the amount of \$2,337 through December 2024 and the remaining principal was paid in full on the maturity date in January 2024.
- 2) A note payable for \$1,375,000 to finance the purchase of a clinic building in Hondo, Texas. The original term was extended and was due in installments of principal and interest payable monthly at the rate of 3.25% in the amount of \$6,595 through January 2021 and the remaining principal due in full on the maturity date in February 2021. The outstanding balance was paid off with the new note payable issued in May 2020.
- 3) A note payable for \$150,000 to finance the purchase of radiology equipment. The note payable to bank is due in installments of principal and interest payable monthly at the rate of 3.25% in the amount of \$2,715 through the maturity date in April 2020 and was paid in full as of September 30, 2020.
- 4) A note payable for \$381,162 to finance the expansion of a clinic building in Devine, Texas. The note payable to bank is due in installments of principal and interest payable monthly at the rate of 3.6% in the amount of \$2,230 through September 2020 with the remaining principal due in full on the maturity date in October 2020.

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- 5) A note payable for \$459,000 to finance the purchase of a clinic building in Castroville, Texas. The note payable term was extended and was due in installments of principal and interest payable monthly at the rate of 3.25% in the amount of \$1,998 through June 2021 and the remaining principal was paid in full on the maturity date in July 2021.
- 6) A note payable for \$416,800 to finance the purchase of a building in Hondo, Texas. The note payable to bank is due in installments of principal and interest payable monthly at the rate of 3.25% in the amount of \$2,365 through August 2021 with the remaining principal due in full on the maturity date in September 2021.
- 7) A line of credit for up to \$4 million for interim financing of the renovation of a clinic building in Hondo, Texas. The line of credit bears interest at 3.75% and is due in full on the extended maturity date in April 2020. The outstanding balance of this line of credit was paid off with a new note payable issued in May 2020.
- 8) A note payable for \$4,969,723 to finance the renovation of a clinic building in Hondo, Texas. The note payable to bank is due in installments of principal and interest payable monthly at the rate of 4.4% in the amount of \$31,308 through April 2022 with the remaining principal due in full on the maturity date in May 2022.

The debt service requirements for notes payables and lines of credit as of September 30, 2020, are as follows:

<b>Year Ending September 30,</b>	<b>Total Debt Service</b>	<b>Principal</b>	<b>Interest</b>
2021	\$ 1,218,415	\$ 964,128	\$ 254,287
2022	4,947,337	4,789,941	157,396
2023	54,813	36,960	17,853
2024	268,930	257,372	11,558
2025 and after	235,921	232,358	3,563
	<u>\$ 6,725,416</u>	<u>\$ 6,280,759</u>	<u>\$ 444,657</u>

***Paycheck Protection Program Loan***

During April 2020, the District obtained a loan under the paycheck protection program (PPP). The PPP loan is due April 15, 2022, with monthly interest payments at 1.00% and monthly principal payments beginning November 2020. The District intends to apply for forgiveness of the PPP loan subsequent to year-end. In the event the loan is not forgiven, the debt service requirements of the PPP loan as of September 30, 2020, are as follows:

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Year Ending September 30,	Total to be Paid	Principal	Interest
2021	\$ 1,706,703	\$ 1,675,108	\$ 31,595
2022	<u>1,034,437</u>	<u>1,030,892</u>	<u>3,545</u>
Total PPP Loan	<u>\$ 2,741,140</u>	<u>\$ 2,706,000</u>	<u>\$ 35,140</u>

**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.

The bond indentures of the Series 2006 bonds require that specific funds be set up and maintained. The “Interest and Sinking Fund Covenant” states that the District is to set up fund and deposit amounts necessary to pay principal and interest coming due on each payment date, by depositing such amounts, as necessary, to meet payments of interest and principal of the bonds due. As of September 30, 2020 and 2019, the District established an Interest and Sinking Fund which had a balance of \$140,094 and \$137,042, respectively, included in restricted cash in the accompanying balance sheets.

The “Reserve Fund Covenant” states that the District is to set up a fund to pay the principal and interest of the bonds in the event the Interest and Sinking Fund does not have sufficient funds to do so. To satisfy the reserve requirement, the District shall make equal monthly installments to the Reserve Fund until the reserve requirement has been met, an amount equal to 1/12<sup>th</sup> of 1/10<sup>th</sup> or \$5,000. At no time shall deposits be made into the Reserve Fund when there is a deficiency in the amount on deposit in the Interest and Sinking Fund. If, at the end of the fiscal year, surplus funds remain in the Reserve Fund, they shall be transferred to the Interest and Sinking Fund. As of September 30, 2020 and 2019, the District had \$592,392 and \$592,408, respectively, in the Reserve Fund, included in restricted cash in the accompanying balance sheets.

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The debt service requirements on the bonds as of September 30, 2020, are as follows:

<u>Year Ending September 30,</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 599,838	\$ 211,000	\$ 388,838
2022	599,950	220,000	379,950
2023	599,691	229,000	370,691
2024	601,015	239,000	362,015
2025	598,997	248,000	350,997
2026 - 2030	2,994,169	1,404,000	1,590,169
2031 - 2035	2,988,012	1,719,000	1,269,012
2036 - 2040	2,980,382	2,104,000	876,382
2041 - 2045	2,969,771	2,575,000	394,771
2046	<u>594,102</u>	<u>582,000</u>	<u>12,102</u>
	<u>\$ 15,525,927</u>	<u>\$ 9,531,000</u>	<u>\$ 5,994,927</u>

**Note 11: 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, 2020:

<u>Year Ending September 30,</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>
2021	\$ 43,119	\$ 41,256	\$ 1,863
2022	27,003	25,869	1,134
2023	23,211	22,794	417
2024	<u>647</u>	<u>638</u>	<u>9</u>
	<u>\$ 93,980</u>	<u>\$ 90,557</u>	<u>\$ 3,423</u>

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**Note 12: Nursing Home Operations**

During the years ended September 30, 2014 and 2017, the District entered a series of lease and management agreements with five nursing home operators that resulted in the District becoming the legal operator of five nursing homes. Under the management agreements, the managers provide all services necessary to operate the homes, including employees, supplies and other operating costs. The managers also provide all billing and 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 13: 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:

	<u>2020</u>	<u>2019</u>
Participant salaries	\$ 8,524,086	\$ 8,441,605
Contributions by employees	\$ 224,365	\$ 265,422
Percent of participant salaries	2.63%	3.14%
Contributions by the District	\$ 158,575	\$ 153,639
Percent of participant salaries	1.86%	1.82%

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**Note 14: Charity Care**

Charges excluded from revenue under the District's charity care policy were approximately \$2,700,000 and \$3,000,000 for 2020 and 2019, respectively. The costs of charity care provided under the District's charity care policy were approximately \$1,195,000 and \$1,318,000 for 2020 and 2019, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

**Note 15: 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 16: 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.



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***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 or Methodist may terminate the agreement at any time. The District pays monthly management fees to Methodist of \$11,250 and reimburses the costs of executive management employees and other related costs during the term of the agreement.

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**Note 17: Changes in Accounting Principles**

The District adopted Governmental Accounting Standards Board Statement No. 87, *Leases* effective October 1, 2019. The new Statement establishes a single model for lease accounting based on the principle that leases represent the financing of the right to use an underlying asset. In connection with the adoption, the prior year has been retroactively revised as follows:

	<b>2019 - As Originally Reported</b>	<b>Impact of Change in Accounting Principle</b>	<b>2019 - As Adjusted</b>
<b>Balance sheet:</b>			
Assets			
Leases receivable	\$ -	\$ 31,402	\$ 31,402
Total current assets	32,891,216	31,402	32,922,618
Capital Assets, Net	19,130,587	(3,239)	19,127,348
Lease Assets, Net	-	129,542	129,542
Total assets	52,751,253	157,705	52,908,958
Liabilities, Deferred Inflows of Resources, and Net Position			
Current maturities of long-term debt	3,224,369	(9,501)	3,214,868
Current portion of lease liabilities	-	51,770	51,770
Total current liabilities	11,160,766	42,269	11,203,035
Long-term Debt	12,048,199	(6,259)	12,041,940
Lease Liabilities	-	90,403	90,403
Total other liabilities	12,048,199	84,144	12,132,343
Total liabilities	23,208,965	126,413	23,335,378
Deferred inflows of resources - leases	-	31,292	31,292
Total liabilities, deferred inflows of resources, and net position	52,751,253	157,705	52,908,958
<b>Statement of cash flows:</b>			
Operating Activities			
Payments to suppliers and contractors	(46,355,092)	47,261	(46,307,831)
Other receipts	708,673	(9,720)	698,953
Net cash provided by operating activities	3,246,029	37,541	3,283,570
Capital and Related Financing Activities			
Principal paid on long-term debt	(338,478)	17,561	(320,917)
Interest paid on notes payable, long-term debt, and leases	(497,947)	(4,992)	(502,939)
Principal and interest payments received on leases receivable	-	9,720	9,720
Principal paid on leases payable	-	(59,830)	(59,830)
Net cash used in capital and related financing activities	(2,026,949)	(37,541)	(2,064,490)
Reconciliation of Operating Income to Net Cash			
Provided by Operating Activities			
Other assets and liabilities	(512,485)	37,541	(474,944)
Net cash provided by operating activities	3,246,029	37,541	3,283,570
Supplemental Cash Flows Information			
Lease assets acquired through capital lease	18,778	107,300	126,078

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**Note 18: Future Change in Accounting Principle**

The Governmental Accounting Standards Board recently issued its Statement No. 84, *Fiduciary Activities* (GASB 84).

GASB 84 establishes criteria for identifying fiduciary activities of all state and local governments and is effective for the District's fiscal year ending September 30, 2021. The impact of applying this Statement has not been determined.

**Note 19: 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.

While some of these policies have been eased and states have lifted moratoriums on non-emergent procedures, some restrictions remain in place, and some state and local governments are re-imposing certain restrictions due to increasing rates of COVID-19 cases.

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

In addition, the District received approximately \$7.8 million in general and targeted Provider Relief Fund distributions, both as provided for under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act.

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

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

***Provider Relief Fund***

During the year ended September 30, 2020, the District received approximately \$7.8 million of distributions from the CARES Act Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the District is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services.

The District is accounting for such payments as conditional contributions. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the District's operating revenues and expenses through September 30, 2020, the District recognized approximately \$235,000, related to the Provider Relief Fund, and these payments are recorded as nonoperating revenue in our statement of revenues, expenses and changes in net position. The unrecognized amount of Provider Relief Fund distributions is recorded as unearned revenue in the accompanying balance sheets.

Subsequent to year-end, HHS issued guidance on the use of payments from the Provider Relief Fund. The District considers the guidance issued subsequent to year-end to be substantive changes in guidance rather than clarifications of guidance existing at September 30, 2020. As a result, the amounts recorded in the financial statements compared to the District's Provider Relief Fund reporting could differ. This difference cannot be currently estimated but could be material.

The District will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the District's revenues and expenses. The terms and conditions governing the Provider Relief 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. Provider Relief Fund payments are subject to government oversight, including potential audits.

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***Paycheck Protection Program (PPP) Loan***

The CARES Act and other subsequent legislation also provides a Small Business Administration (SBA) loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. The Payroll Protection Program (PPP) loans will be forgiven if all employee retention criteria are met and the funds are used for eligible expenses. The District received a PPP loan of \$2,706,000 in April 2020. The loan has an interest rate of 1 percent, with monthly payments of \$152,283 due monthly starting six months after the receipt of the loan. The loan, if not forgiven, matures on April 15, 2022.

The District is accounting for the PPP loan in accordance with GASB Statement 62. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan will be recognized as a gain in the financial statements in the period the debt is legally released. The PPP loan is included on the accompanying balance sheet as long-term debt in accordance with the term of the PPP loan agreement. See *Note 10* for additional information.

**Independent Auditor's Report on Internal Control  
Over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in  
Accordance with *Government Auditing Standards***

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

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statements of Medina County Hospital District d.b.a. Medina Regional Hospital (the District), which comprise the balance sheet as of September 30, 2020, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 24, 2021.

***Internal Control over Financial Reporting***

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

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

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

### ***Compliance and Other Matters***

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

### ***Purpose of this Report***

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

**BKD, LLP**

Waco, Texas  
March 24, 2021