

# **Frio Hospital District**

Independent Auditor's Report and Financial Statements

September 30, 2020 and 2019

**Frio Hospital District**  
**September 30, 2020 and 2019**

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## Independent Auditor's Report

Board of Directors  
Frio Hospital District  
Pearsall, Texas

We have audited the accompanying financial statements of Frio Hospital District (the District) as of and for the years ended September 30, 2020 and 2019, 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. 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.

***Required Supplementary Information***

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

*BKD, LLP*

Dallas, Texas  
January 21, 2021

**Frio Hospital District**  
**Balance Sheets**  
**September 30, 2020 and 2019**

**Assets**

	<b>2020</b>	<b>2019</b>
<b>Current Assets</b>		
Cash	\$ 3,958,002	\$ 1,505,946
Property taxes receivable, net	434,906	179,880
Nursing home patient accounts receivable, net of allowance; 2020 - \$818,000, 2019 - \$630,000	3,273,553	2,520,565
Quality improvement payment program receivable	944,039	701,638
Prepaid nursing facility management fees	2,818,133	-
Prepaid expenses and other	47,657	29,050
Prepaid intergovernmental transfer	1,931,589	878,114
Total current assets	13,407,879	5,815,193
<b>Capital Assets, Net</b>	6,608,156	5,563,861
<b>Other Asset</b>	4,640	6,560
Total assets	\$ 20,020,675	\$ 11,385,614

**Liabilities and Net Position**

<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 94,061	\$ 90,816
Accounts payable and accrued expenses	301,153	365,433
Provider Relief Funds received in advance	2,818,133	-
Management fee payable	3,903,554	2,747,029
Total current liabilities	7,116,901	3,203,278
<b>Long-term Debt</b>	-	94,061
Total liabilities	7,116,901	3,297,339
<b>Net Position</b>		
Net investment in capital assets	6,404,170	5,125,069
Unrestricted	6,499,604	2,963,206
Total net position	12,903,774	8,088,275
Total liabilities and net position	\$ 20,020,675	\$ 11,385,614

**Frio Hospital District**  
**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>		
Lease rental income	\$ 797,198	\$ 730,500
Nursing home net patient service revenue, net of provision for uncollectible accounts; 2020 - \$818,000, 2019 - \$630,000	30,295,679	14,735,307
Quality improvement payment program revenue	2,763,114	1,248,298
Other	121,221	88,841
Total operating revenues	33,977,212	16,802,946
<b>Operating Expenses</b>		
Purchased services and professional fees	73,431	73,243
Nursing facility fees	31,881,457	15,510,268
Supplies and other	198,937	167,423
Intergovernmental transfer expense	1,424,236	3,815,322
Indigent care expense	284,836	141,746
Depreciation and amortization	643,522	581,735
Total operating expenses	34,506,419	20,289,737
<b>Operating Loss</b>	(529,207)	(3,486,791)
<b>Nonoperating Revenues (Expenses)</b>		
Property taxes	5,337,663	4,290,123
Noncapital grants and gifts	6,600	150,000
Interest income	5,475	16,107
Interest expense	(5,032)	(7,807)
Total nonoperating revenues (expenses)	5,344,706	4,448,423
<b>Increase in Net Position</b>	4,815,499	961,632
<b>Net Position, Beginning of Year</b>	8,088,275	7,126,643
<b>Net Position, End of Year</b>	\$ 12,903,774	\$ 8,088,275

**Frio Hospital District**  
**Statements of Cash Flows**  
**Years Ended September 30, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
<b>Operating Activities</b>		
Receipts from rental agreements	\$ 797,198	\$ 730,500
Receipts from and on behalf of patients	31,009,929	14,222,727
Payments to suppliers and contractors	(33,754,330)	(14,264,209)
Intergovernmental transfers	(1,424,236)	(4,167,008)
Payments for indigent care	(284,836)	(141,746)
Other receipts	<u>121,221</u>	<u>88,841</u>
Net cash used in operating activities	<u>(3,535,054)</u>	<u>(3,530,895)</u>
<b>Noncapital Financing Activities</b>		
Noncapital grants and gifts	2,824,733	150,000
Property taxes supporting operations	<u>5,082,637</u>	<u>4,272,063</u>
Net cash provided by noncapital financing activities	<u>7,907,370</u>	<u>4,422,063</u>
<b>Capital and Related Financing Activities</b>		
Principal paid on long-term debt	(90,816)	(80,572)
Interest paid on long-term debt	(5,032)	(7,807)
Purchase of capital assets	<u>(1,831,807)</u>	<u>(1,129,553)</u>
Net cash used in capital and related financing activities	<u>(1,927,655)</u>	<u>(1,217,932)</u>
<b>Investing Activities</b>		
Interest income	<u>7,395</u>	<u>16,107</u>
Net cash provided by investing activities	<u>7,395</u>	<u>16,107</u>
<b>Increase (Decrease) in Cash</b>	2,452,056	(310,657)
<b>Cash, Beginning of Year</b>	<u>1,505,946</u>	<u>1,816,603</u>
<b>Cash, End of Year</b>	<u>\$ 3,958,002</u>	<u>\$ 1,505,946</u>

**Frio Hospital District**  
**Statements of Cash Flows (Continued)**  
**Years Ended September 30, 2020 and 2019**

	<b>2020</b>	<b>2019</b>
<b>Reconciliation of Operating Loss to Net Cash Used in Operating Activities</b>		
Operating loss	\$ (529,207)	\$ (3,486,791)
Depreciation and amortization	643,522	581,735
Provision for uncollectible accounts	818,388	840,337
Changes in operating assets and liabilities		
Patient accounts receivable	(1,571,376)	(2,008,630)
Accounts payable	1,236,235	1,362,582
Other assets and liabilities	(4,132,616)	(820,128)
Net cash used in operating activities	\$ (3,535,054)	\$ (3,530,895)
<b>Supplemental Cash Flows Information</b>		
Capital asset acquisitions included in accounts payable	\$ 109,925	\$ 253,915



**Frio Hospital District**  
**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***

Frio Hospital District (the District) was created by an act of the Texas State Legislature. The District is managed by a board of directors who are elected by the citizens of the District. The District primarily earns revenues through leasing of a healthcare facility owned by the District to Frio Hospital Association d/b/a Frio Regional Hospital (Hospital). The District has also acquired the operations of four nursing homes located in the District's service area, of which one home was acquired in both 2020 and 2019.

***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 and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally county appropriations) 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 or voluntary nonexchange transactions that are not program specific (such as county appropriations), property taxes, interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The District first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

***Use of Estimates***

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

***Property Taxes***

Excluding nursing home net patient service revenue and supplemental Medicaid revenue, the District received approximately 85% and 81% of its financial support from property taxes in 2020 and 2019, respectively. Including nursing home net patient service revenue and supplemental Medicaid revenue, the District received approximately 14% and 20% of its financial support from property taxes in 2020 and 2019, respectively. These funds were used to support operations.

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

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. The District's allowance for uncollectible property taxes was approximately \$157,000 and \$146,000 at September 30, 2020 and 2019, respectively.

The District's property tax rate was \$.25909 and \$.23488 per \$100 valuation for 2020 and 2019, respectively. Property tax revenue totaled \$5,337,663 and \$4,290,123 for 2020 and 2019, respectively.

***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; and natural disasters. Commercial insurance coverage is purchased for claims arising from such. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

***Nursing Home Patient Accounts Receivable and Net Patient Service Revenue***

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

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

***Capital Assets***

Capital assets are recorded at cost at the date of acquisition or fair 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:

Buildings and improvements	5 – 40 years
Equipment	3 – 15 years

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

***Net Position***

Net position of the District is classified in two 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. Unrestricted net position is the remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets.

***Income Taxes***

As an essential government function, the District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the District is subject to federal income tax on any unrelated business taxable income.

**Note 2: Deposits**

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's policy regarding custodial credit risk is to follow the provisions of the *Texas Public Funds Investment Act*.

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

At September 30, 2020 and 2019, all of the District's cash balances were fully secured.

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

**Note 3: Capital Assets**

Capital assets activity for the year ended September 30 was:

	<b>2020</b>				<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	
Land and land improvements	\$ 248,055	\$ -	\$ -	\$ 55,970	\$ 304,025
Buildings and improvements	8,878,956	165,223	-	2,355,565	11,399,744
Equipment	2,057,513	1,308	-	87,413	2,146,234
Construction in progress	<u>1,070,710</u>	<u>1,521,286</u>	<u>-</u>	<u>(2,498,948)</u>	<u>93,048</u>
	12,255,234	1,687,817	-	-	13,943,051
Less accumulated depreciation	<u>6,691,373</u>	<u>643,522</u>	<u>-</u>	<u>-</u>	<u>7,334,895</u>
Capital assets, net	<u>\$ 5,563,861</u>	<u>\$ 1,044,295</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,608,156</u>

  

	<b>2019</b>				<b>Ending Balance</b>
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	
Land and land improvements	\$ 89,632	\$ 158,423	\$ -	\$ -	\$ 248,055
Buildings and improvements	8,819,304	59,652	-	-	8,878,956
Equipment	1,910,851	146,662	-	-	2,057,513
Construction in progress	<u>119,469</u>	<u>951,241</u>	<u>-</u>	<u>-</u>	<u>1,070,710</u>
	10,939,256	1,315,978	-	-	12,255,234
Less accumulated depreciation	<u>6,109,638</u>	<u>581,735</u>	<u>-</u>	<u>-</u>	<u>6,691,373</u>
Capital assets, net	<u>\$ 4,829,618</u>	<u>\$ 734,243</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,563,861</u>

**Note 4: Transactions with the Hospital**

***Hospital Facility Lease***

Effective January 1, 1990, the District leased all of its facilities to the Hospital. The initial lease term was for a fifteen-year period, with renewal terms stating the lease can be extended by up to two additional terms of fifteen years each. The current lease agreement expires December 31, 2021. The agreement states the Hospital will make monthly payments in the amount of \$65,000 to the District. Effective March 1, 2018, the monthly rental payment was decreased to \$59,102 and will increase by 3% annually thereafter. Rental income associated with this agreement is \$797,198 and \$730,500 for 2020 and 2019, respectively.

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

***Administrative Services***

The District uses the Hospital personnel for the record-keeping and operations of the District. Expenses incurred for the use of Hospital personnel was \$73,431 and \$73,243 for 2020 and 2019, respectively, which is included as purchased services and professional fees in the accompanying statements of revenues, expenses and changes in net position.

***Indigent Care***

In 2020 and 2019, the District paid \$284,836 and \$141,746 respectively, directly to the Hospital for indigent care services provided in the community.

**Note 5: Intergovernmental Transfer Expense**

On December 12, 2011, the United States Department of Health and Human Services (HHSC) approved a new Medicaid section 1115(a) demonstration entitled “Texas Health Transformation and Quality Improvement Program” (the Waiver). The Waiver expanded existing Medicaid managed care programs and established two funding pools that assists hospital providers with uncompensated care costs (UC Pool) 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 limits UC Pool funding to the cost of providing charity care and requires a phase out of DSRIP over the five-year period.

The District is part of an indigent care affiliation agreement with Nix Healthcare System, LLC (Nix Healthcare). The affiliation agreement with Nix Healthcare was terminated during 2020. This agreement is intended to increase funding for the Medicaid population and to access federal funding for the indigent population through the Waiver. Under this program, the District contributes certain government funds to the state of Texas. Nix Healthcare then provides care to the Medicaid and non-Medicaid indigent in the region and surrounding communities. As part of the affiliation agreement and as part of support provided to the Hospital, the District provided \$1,424,236 and \$3,605,126 in funding to the program for the years ended September 30, 2020 and 2019, respectively, which is recognized as intergovernmental transfer expense in the accompanying statements of revenues, expenses and changes in net position.

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

**Note 6: Note Payable to Bank**

The District borrowed funds from a bank to finance a capital asset acquisition which was scheduled to mature on September 30, 2017 and was subsequently renewed to September 30, 2021 and bears interest at a rate of 3.5%. The note is due in equal monthly installments of principal and interest of \$7,985. The note is secured by the equipment purchased.

The following is a summary of note payable transactions for the years ended September 30:

	<b>2020</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Note payable to bank	\$ 184,877	\$ -	\$ (90,816)	\$ 94,061	\$ 94,061
	<b>2019</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Note payable to bank	\$ 265,449	\$ -	\$ (80,572)	\$ 184,877	\$ 90,816

**Note 7: Nursing Home Operations**

The District has entered into lease and management agreements with a nursing home operator that resulted in the District becoming the legal operator of multiple nursing homes. Under the management agreements, the manager provides all services necessary to operate the home, including employees, supplies, and other operating costs. The manager also provides all billing and collecting services. All patient revenue from the facility is paid to the District. From these collections, the District pays the manager for all facility costs and the management fee pursuant to the agreement. However, the District payments to the manager are limited to the amount of net patient service revenue received from the facility. At its option, the District may pay additional amounts to the manager above the amounts collected for patient revenue.

***Nursing Home Net Patient Service Revenue***

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

Substantially all of the District's nursing home net patient service revenue for the years ended September 30, 2020 and 2019, is from participation in the Medicare and state-sponsored Medicaid programs. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

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

***Nursing Home Patient Accounts Receivable***

The District grants credit without collateral to its nursing home patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at September 30, 2020 and 2019, primarily consisted of amounts owed from Medicare and Medicaid programs.

***Quality Improvement Payment Program***

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

At September 30, 2020 and 2019, the District recorded approximately \$1,932,000 and \$878,000, respectively, of prepaid intergovernmental transfers, which the District is required to contribute as the state share of QIPP funding. Amounts receivable under this program was approximately \$944,000 and \$701,000 at September 30, 2020 and 2019, respectively.

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

**Note 8: COVID-19 Pandemic and CARES Act Funding**

During the year ended September 30, 2020, the District received approximately \$2,818,000 of distributions from the CARES Act Provider Relief Fund (collectively, the 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 U.S. Department of Health and Human Services (HHS).

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

The District is accounting for such payments as conditional contributions. Payments are recognized as other non-operating 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 did not recognize any revenue from the Provider Relief Funds. The unrecognized amount of Provider Relief Fund distributions are recorded as Provider Relief Funds received in advance 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.