

DURBIN & COMPANY, L. L. P.

Certified Public Accountants

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Winnie-Stowell Hospital District

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December 31, 2016 and 2015*

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Management and the Board of Directors
Winnie-Stowell Hospital District
Winnie, Texas

In planning and performing our audits of the financial statements of Winnie-Stowell Hospital District (the "District"), as of and for the year ended December 31, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the Winnie-Stowell Hospital 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 opinions 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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 District's financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the following deficiency in internal control to be material weaknesses:

Financial Close Process

Management is responsible for the timely reconciliation of all general ledger accounts throughout the fiscal year. During the performance of our audit procedures, it was noted certain general ledger accounts were not reconciled during the year, resulting in misstatement of the financial statements during the year. As a result, audit adjustments, some of which were material, were proposed and recorded by management to properly state the financial statements at year-end. Management should review and update the process and adjust all general ledger accounts on a monthly and annual basis to reflect financial activity in accordance with generally accepted accounting principles.

General ledger accounts requiring material adjustments at year-end included:

Nursing Home Activity

While the District recorded cash transactions for the nursing homes it operates, the operating revenues and expenses were not recorded. We suggest the District record nursing home activity monthly using the accrual basis of accounting in order to keep the financial statements of the District from being materially misstated or misleading. Additionally, while the District recorded an estimate to account for supplemental payments associated with Nursing Home Upper Payment Limit and The Nursing Facility Upper Payment Limit Supplemental Payment Program and Minimum Payment Amount Programs (MPAP), a material audit adjustment to record additional revenue was proposed and accepted. Estimating State payments has become difficult due to the delays affecting timing, continually changing rules, and State-wide capitation models being utilized. Subsequent to year end, management has executed Amended and Restated Management Agreements with the nursing home managers to require monthly financials on an accrual 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.

This communication is intended solely for the information and use of the board of directors, management, others within the organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

Durbin & Company, L.L.P.

Durbin and Company
Lubbock, Texas
January 24, 2018

DURBIN & COMPANY, L. L. P.

Certified Public Accountants

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January 24, 2018

Board of Directors
Winnie-Stowell Hospital District
Winnie, Texas

We have audited the financial statements of Winnie-Stowell Hospital District for the year ended December 31, 2016. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter dated July 26, 2017. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Winnie-Stowell Hospital District are described in Note 1 to the financial statements. As described in Note 1 to the financial statements, the District changed accounting policies related to financial reporting by adopting Statement of Governmental Accounting Standards (GASB Statement) 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments* in 2016. The implementation of this Statement did not affect the change in net position in 2016 and 2015. Additionally, as described in Note 1 to the financial statements, the District implemented the provisions of GASB Statement No. 77, *Tax Abatement Disclosures* in 2016. The implementation of this Statement did not affect the change in net position in 2016 and 2015. We noted no transactions entered into by the District during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the District's financial statements were:

Management's estimates for the Medicaid Supplemental Payments to be received after year end is based on information provided by the State at such time that information becomes available. The estimated program payments include Nursing Facility Minimum Payment Amounts Program (MPAP). We evaluated the key factors and assumptions used to develop the estimated payments in determining that it is reasonable in relation to the financial statements taken as a whole

The financial statement disclosures are neutral, consistent, and clear.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements.

The following material misstatements detected as a result of audit procedures were corrected by management:

- Entry to adjust receivables and payables for Nursing Home MPAP payments (increase net position \$1,665,481).
- Entry to record Caring Nursing Homes Activity (increase net position \$827,528).
- Entry to record Genesis Nursing Homes Activity (decrease net position \$2,140,529).

Disagreements with Management

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Managements Representations

We have requested certain representations from management that are included in the management representation letter dated January 24, 2018.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the District's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the District's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

We applied certain limited procedures to the management's discussion and analysis, which is required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were not engaged to report on other financial information, which accompany the financial statements but are not RSI. With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

This information is intended solely for the use of the board of directors and management of the District and is not intended to be, and should not be, used by anyone other than these specified parties.

Very truly yours,

Durbin & Company, L.L.P.

Durbin and Company
Lubbock, Texas
January 24, 2018

**Winnie-Stowell Hospital District
Winnie, Texas**

**For the Years Ended
December 31, 2016 and 2015**

D U R B I N & C O M P A N Y, L. L. P.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Board of Directors and Management
Winnie-Stowell Hospital District
Winnie, Texas

We have audited the accompanying financial statements of Winnie-Stowell Hospital District (the "District"), as of and for the years ended December 31, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the Winnie-Stowell Hospital District's statements of net position, and the related statements of revenues, expenses, and changes in net position, and cash flows.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to 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 Winnie-Stowell Hospital District as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management discussion and analysis on pages A-1 through A-4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

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

Durbin & Company, L.L.P.

Durbin and Company
Lubbock, Texas
January 24, 2018

**Winnie-Stowell Hospital District
Winnie, Texas**

Management's Discussion and Analysis

**For the Years Ended
December 31, 2016 and 2015**

WINNIE-STOWELL HOSPITAL DISTRICT
MANAGEMENTS' DISCUSSION AND ANALYSIS
AND FINANCIAL STATEMENTS

Our discussion and analysis of Winnie-Stowell Hospital District's financial performance provides an overview of the District's financial activities for the fiscal years ended December 31, 2016 and 2015. Please read it in conjunction with the District's financial statements, which begin on page 1.

FINANCIAL HIGHLIGHTS

- The District's net position increased in 2016 by \$265,303 or 2.6% and increased in 2015 by \$5,359,038 or 106.4%.
- The District's operating expenses increased in 2016 by \$7,984,692 or 8.4% and increased in 2015 by \$58,975,359 or 163.6%.
- The District's non-operating revenues and expenses decreased in 2016 by \$(61,181) or (6.3)% and decreased in 2015 by \$(1,603,640) or (250.9)%.

USING THIS ANNUAL REPORT

The District's financial statements consist of three statements, a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Fund Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District but restricted for specific purposes by contributors, grantors, and enabling legislation.

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

Our analysis of the District's finances begins on page A-2. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the 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. 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 to it. You can think of the District's net position—the difference between assets and liabilities—as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the District.

**WINNIE-STOWELL HOSPITAL DISTRICT
UNAUDITED MANAGEMENT’S DISCUSSION AND ANALYSIS
AND FINANCIAL STATEMENTS (CONTINUED)**

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as “Where did cash come from?” “What was cash used for?” and “What was the change in cash balance during the reporting period?”

THE DISTRICT’S NET POSITION

The District’s net position is the difference between its assets and liabilities reported in the Statement of Net Position on page 2. The District’s assets, liabilities, and net position are summarized in **Table 1**. The total net position represents the District’s net worth.

Table 1: Assets, Liabilities, and Net Position

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Assets:			
Current Assets	\$ 24,939,450	\$ 38,126,040	\$ 26,535,741
Capital Assets (net)	6,870	11,478	33,877
Other Non-Current Assets	-	411,150	-
Total Assets	<u>\$ 24,946,320</u>	<u>\$ 38,548,668</u>	<u>\$ 26,569,618</u>
Liabilities:			
Long-Term Debt Outstanding	\$ -	\$ 300,557	\$ -
Other Current and Non-Current	14,285,611	27,852,705	21,533,250
Total Liabilities	<u>14,285,611</u>	<u>28,153,262</u>	<u>21,533,250</u>
Total Net Position	<u>10,660,709</u>	<u>10,395,406</u>	<u>5,036,368</u>
Total Liabilities and Net Position	<u>\$ 24,946,320</u>	<u>\$ 38,548,668</u>	<u>\$ 26,569,618</u>

A significant component of the change in the District’s assets is the decrease in patient accounts receivable in the amount of \$(2,692,006) in 2016, and the increase in patient accounts receivable of \$5,490,520 in 2015. Another significant component of the change in the Districts assets is the decrease in nursing home supplemental payments receivable in the amount of \$(8,191,330) in 2016 and the increase in nursing home supplement payments receivable of \$6,786,376 in 2015.

**WINNIE-STOWELL HOSPITAL DISTRICT
UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS
AND FINANCIAL STATEMENTS (CONTINUED)**

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

In 2016 and 2015, the District's net position increased in 2016 by \$265,303 or 2.6% and increased in 2015 by \$5,359,038 or 106.4%.

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Operating Revenues:			
Net Patient Service Revenue	\$ 104,043,082	\$ 100,635,567	\$ 34,599,589
Other Operating Revenue	247,813	703,190	680,770
Total Operating Revenue	<u>104,290,895</u>	<u>101,338,757</u>	<u>35,280,359</u>
Operating Expenses:			
Salaries	71,331	53,912	14,305
Employee Benefits	4,975	4,240	493
Professional Fees and Purchased Services	1,100	3,472	10,000
Nursing Home Expenses	99,211,036	88,967,492	29,613,188
Indigent Care	584,310	2,158,540	310,323
Legal and Consulting Fees	2,446,595	3,519,948	4,679,804
Other Operating	674,427	285,340	1,386,244
Depreciation and Amortization	6,261	22,399	25,627
Total Operating Expenses	<u>103,000,035</u>	<u>95,015,343</u>	<u>36,039,984</u>
Operating Income (Loss)	1,290,860	6,323,414	(759,625)
Nonoperating Revenues and Expenses:			
Sales Tax Revenue	542,158	587,235	661,342
Investment Income	7,199	2,971	966
Interest Expense	(1,485,807)	(1,536,970)	(24,272)
Other Non Operating	-	(17,612)	1,228
Gain (Loss) on Disposal of Assets	(89,107)	-	-
Total Nonoperating Revenue	<u>(1,025,557)</u>	<u>(964,376)</u>	<u>639,264</u>
Increase (Decrease) in Net Position	<u>\$ 265,303</u>	<u>\$ 5,359,038</u>	<u>\$ (120,361)</u>

Operating Income

Contributing to the overall change of the District's net position is its operating income, generally, the difference between the net patient service revenue and the expenses incurred to perform those services. The District has reported an operating income of \$1,290,860 and \$6,323,414 in 2016 and 2015, respectively.

**WINNIE-STOWELL HOSPITAL DISTRICT
UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS
AND FINANCIAL STATEMENTS (CONTINUED)**

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of sales taxes levied by the state and investment income. The District received \$(45,077) less in taxes in 2016, while in 2015 the taxes collected decreased by (\$74,107). Nonoperating expenses consist primarily of interest expense. The District paid \$51,163 less in interest in 2016 and \$(1,512,698) more in 2015.

THE DISTRICT'S CASH FLOWS

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2016 and 2015, respectively, the District had \$6,870 and \$11,478 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 of the financial statements.

Debt

At December 31, 2016 and 2015, the District had \$3,620,000 and \$11,370,000, respectively, in notes payable as detailed in Note 9 of the financial statements. Additionally, the District had \$- and \$300,557 in long-term debt outstanding as of December 31, 2016 and 2015, as detailed in Note 10 of the financial statements.

Other Economic Factors

The District maintains good relations with various employers in the area. The District seeks to maintain its provider status in the many health insurance networks that local employers participate in. The District will continue to look for ways to foster its relationship with local employers and work towards promoting the services it offers to potential patients in the area.

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. If you have any questions about this report or need additional financial information, contact, the District's office at Winnie-Stowell Hospital District, 538 Broadway, Winnie, Texas 77665.

**Winnie-Stowell Hospital District
Winnie, Texas**

Financials

**For the Years Ended
December 31, 2016 and 2015**

WINNIE-STOWELL HOSPITAL DISTRICT
STATEMENTS OF NET POSITION
DECEMBER 31, 2016 AND 2015

ASSETS:	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 3,827,391	\$ 3,702,509
Short-Term Investments	104,325	103,909
Patient Accounts Receivable, Net of Allowance	9,443,383	12,135,389
Nursing Home Supplemental Payment Receivable	11,471,000	19,662,330
Prepaid and Other Current Assets	1,675	2,405,696
Sales Taxes Receivable	91,676	116,207
Total current assets	<u>24,939,450</u>	<u>38,126,040</u>
ASSETS HELD FOR SALE	-	411,150
CAPITAL ASSETS		
Depreciable Capital Assets, Net	<u>6,870</u>	<u>11,478</u>
Total Assets	<u><u>\$ 24,946,320</u></u>	<u><u>\$ 38,548,668</u></u>

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

**WINNIE-STOWELL HOSPITAL DISTRICT
STATEMENTS OF NET POSITION**

DECEMBER 31, 2016 AND 2015

LIABILITIES AND NET POSITION:	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	\$ -	\$ 26,771
Accounts Payable	10,662,676	16,481,462
Accrued Payroll, Benefits, and Related Liabilities	2,935	1,243
Notes Payable	3,620,000	11,370,000
Due to Nursing Homes	<u>-</u>	<u>-</u>
Total Current Liabilities	14,285,611	27,879,476
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Portion	<u>-</u>	<u>273,786</u>
Total Liabilities	<u>14,285,611</u>	<u>28,153,262</u>
NET POSITION		
Invested in Capital Assets Net of Related Debt	6,870	(289,079)
Unrestricted	<u>10,653,839</u>	<u>10,684,485</u>
Total Net Position	<u>10,660,709</u>	<u>10,395,406</u>
Total Liabilities and Net Position	<u><u>\$ 24,946,320</u></u>	<u><u>\$ 38,548,668</u></u>

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

WINNIE-STOWELL HOSPITAL DISTRICT
STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
OPERATING REVENUES:		
Net Nursing Home Patient Service Revenue	\$ 104,043,082	\$ 100,635,567
Other Revenue	247,813	703,190
Total Operating Revenues	104,290,895	101,338,757
OPERATING EXPENSES:		
Salaries	71,331	53,912
Employee Benefits	4,975	4,240
Professional Fees and Purchased Services	1,100	3,472
Nursing Home Expenses	99,211,036	88,967,492
Indigent Care	584,310	2,158,540
Legal and Consulting Fees	2,446,595	3,519,948
Other Operating	674,427	285,340
Depreciation and Amortization	6,261	22,399
Total Operating Expenses	103,000,035	95,015,343
Operating Income (Loss)	1,290,860	6,323,414
NONOPERATING REVENUES (EXPENSES):		
Sales Tax Revenue	542,158	587,235
Investment Income	7,199	2,971
Interest Expense	(1,485,807)	(1,536,970)
Other Non Operating Revenue (Expenses)	-	(17,612)
Gain (Loss) on Disposal of Assets	(89,107)	-
Total Nonoperating Revenues (Expenses)	(1,025,557)	(964,376)
Increase (Decrease) in Net Position	265,303	5,359,038
Net Position, Beginning of Year	10,395,406	5,036,368
Net Position, End of Year	\$ 10,660,709	\$ 10,395,406

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

**WINNIE-STOWELL HOSPITAL DISTRICT
STATEMENTS OF CASH FLOWS**

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from and on Behalf of Patients	\$ 114,926,418	\$ 88,358,671
Other Receipts and Payments, net	2,651,834	(1,700,831)
Indigent Care Support	(584,310)	(2,158,540)
Payments to Suppliers and Contractors	(108,151,944)	(91,611,381)
Payments to Employees	(74,614)	(57,583)
Net cash provided by (used in) operating activities	8,767,384	(7,169,664)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Earnings	7,199	2,971
Purchase of Investments	(419)	(363)
Net Cash Provided by (Used in) Investing Activities	6,780	2,608
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Proceeds from Issuance of Long-Term Debt and Notes Payable	-	320,000
Principal Payments on Long-Term Debt and Notes Payable	(300,557)	(19,443)
Proceeds From Sale of Capital Assets	315,537	-
Purchase of Capital Assets	4,853	(411,150)
Net Cash Provided by (Used in) Capital and Related Financing Activities	19,833	(110,593)
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES		
Sales Tax	566,689	562,087
Principal Payments on Debt and Notes Payable	(7,760,000)	(12,811,000)
Proceeds From Issuance of Long-Term Debt and Notes Payable	10,000	17,970,000
Interest Payments on Long-Term Debt and Notes Payable	(1,485,807)	(1,560,092)
Net Cash Provided by (Used in) Noncapital Financing Activities	(8,669,118)	4,160,995
Net Increase (Decrease) in Cash and Cash Equivalents	124,879	(3,116,654)
Cash and Cash Equivalents, Beginning of Year	3,702,512	6,819,166
Cash and Cash Equivalents, End of Year	\$ 3,827,391	\$ 3,702,512

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

**WINNIE-STOWELL HOSPITAL DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)**

FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015

	2016	2015
RECONCILIATION OF CASH AND EQUIVALENTS TO THE BALANCE SHEETS		
Cash and equivalents presented under the following titles:		
Cash and Cash Equivalents	\$ 3,827,391	\$ 3,702,509
	\$ 3,827,391	\$ 3,702,509
RECONCILIATION OF NET INCOME TO NET CASH USED IN OPERATING ACTIVITIES		
Operating Income (Loss)	1,290,860	6,323,414
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Used in Operating Activities:		
Depreciation and Amortization	6,261	22,399
Provision for Bad Debts	677,079	935,853
(Increase) Decrease in:		
Accounts Receivable	2,014,927	(6,426,373)
Prepaid Expenses and Other Current Assets	2,404,021	(2,423,308)
Nursing Home Supplemental Payment Receivable	8,191,330	(6,786,376)
Increase (Decrease) in:		
Accounts Payable	(5,818,786)	1,184,158
Accrued Salaries and Benefits Payable	1,692	569
 Net Cash Provided By (Used in) Operating Activities	 \$ 8,767,384	 \$ (7,169,664)

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

**WINNIE-STOWELL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The Winnie-Stowell Hospital District (the “District”) was formed as a political subdivision under the laws of the State of Texas, and became effective on January 1, 2005, in the eastern portion of Chambers County, Texas. The District is governed by an elected five-member board of directors serving four-year terms. As a hospital district it is not controlled by or dependent upon any other entity and does not exercise control over operations of any other entity. During 2014, the District entered into operations transfer agreements with thirteen nursing facilities which transferred the operations and certain operating assets of each facility. The District has also received an assignment or transfer of the Medicare and Medicaid Provider agreements for each facility.

The accounting policies of the District conform to accounting principles generally accepted in the United States of America.

Enterprise Fund Accounting – The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. The District has elected to apply the provisions based on Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The District has also elected to apply the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

Newly Adopted Accounting Pronouncements

GASB Statement No. 76 – The District has implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to improve accounting and financial reporting by raising the category of GASB Implementation Guides in the hierarchy of generally accepted accounting principles used to prepare financial statements of state and local governmental entities. The implementation of this Statement did not affect the change in net position in 2016 and 2015.

GASB Statement No. 77 – The District has implemented the provisions of GASB Statement No. 77, *Tax Abatement Disclosures*. The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. The implementation of this Statement did not affect the change in net position for 2016 and 2015.

Pending Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting pronouncement regarding revenue recognition effective for reporting periods beginning after December 15, 2018. Management does not expect the new standard to have a significant impact to its financial position, results of operations and related disclosures.

**WINNIE-STOWELL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pending Accounting Pronouncements (Continued)

In February 2016, the FASB issued a new accounting pronouncement regarding lease accounting for reporting periods beginning after December 15, 2019. A lessee will be required to recognize on the balance sheet the assets and liabilities for leases with lease terms of more than 12 months. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - The District considers highly liquid investments with an original maturity of three months or less to be cash equivalents, excluding amounts whose use is limited by board designation or other arrangements under trust agreements.

Patient Accounts Receivable – The allowance for estimated uncollectible patient accounts receivable is maintained at a level which, in management’s judgment, is adequate to absorb patient account balance write-offs inherent in the billing process. The amount of the allowance is based on management’s evaluation of the collectability of patient accounts receivable, including the nature of the accounts, credit concentrations, and trends in historical write-off experience, specific impaired accounts, and economic conditions. Allowances for uncollectibles and contractuals are general determined by applying historical percentages to financial classes within accounts receivable. The allowances are increased by a provision for bad debt expenses and contractual adjustments, and reduced by write-offs, net of recoveries.

Investments – The District is authorized to invest excess working capital and assets whose use is limited in certificate of deposit, money market accounts, or U.S. government securities. The District can invest its excess working capital monies in certificates of deposit at its designated depository and other financial institutions. Investments at the District’s depository are secured by the Federal Deposit Insurance Corporation (FDIC) or through the purchase of collateral in the form of US government securities by the depository.

Assets Whose Use is Limited - Assets whose use is limited (if any) include assets held under indenture agreements and designated assets set aside by the board of directors to be used for capital expenditures over which the board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the District have been reclassified as current assets

**WINNIE-STOWELL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Capital Assets – Capital assets are carried at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Equipment under capital lease obligations is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment life. Such amortization is included in depreciation and amortization in the financial statements. Except for capital assets acquired through gifts, contributions, or capital grants, interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring these assets.

The District has elected to capitalize expenditures over \$5,000 and provide for depreciation of capital assets by the straight-line method at rates promulgated by the American Hospital Association, which are designed to amortize the cost of such equipment over its useful life as follows:

Major Moveable Equipment	3 to 20 years
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Net Position – Net position of the District is classified into two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

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

Federal Income Taxes - The 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.

Indigent Care – The District provides payment for services to health care providers for certified indigents who have applied and met the District’s criteria for indigent care. The District pays a discounted rate which in most cases is equal to the Medicaid reimbursement rates.

Sales Tax Revenue – Sales taxes are collected by the state of Texas and remitted to the District monthly. The tax is collected by the vendor and is required to be remitted to the state by the 20th of the month following collection. The tax is then paid to the District by the Friday following the second Wednesday of the subsequent month. These funds were used to support operations.

**WINNIE-STOWELL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 matters. Settled claims have not exceeded this commercial coverage during the year.

Reclassifications – Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statement presentation. These reclassifications had no effect on the change in net position.

NOTE 2 – NURSING HOME NET PATIENT SERVICE REVENUE

A significant portion of the District’s nursing home revenues and related accounts receivable are derived from programs administered by various federal and state agencies. Accordingly, the District is subject to regulatory requirements imposed by these governmental agencies. Revenues under certain of these programs are subject to examination and retroactive adjustment. Management does not expect a material settlement to result from any such examinations.

Patient service revenue for the Nursing Homes is comprised as follows:

	<u>2016</u>	<u>2015</u>
Hospice Revenue	\$ 1,899,798	\$ 1,734,546
Managed Care Revenue	2,534,462	2,314,005
Medicaid Revenue	48,984,257	44,723,422
Medicare Revenue	27,551,719	25,155,167
Self-Pay Revenue	9,443,667	7,796,728
Supplemental Payments	14,306,258	19,847,552
Gross Nursing Home Patient Service Revenue	<u>104,720,161</u>	<u>101,571,420</u>
Provision for Bad Debts	<u>(677,079)</u>	<u>(935,853)</u>
Net Nursing Home Patient Service Revenue	<u>\$ 104,043,082</u>	<u>\$ 100,635,567</u>

**WINNIE-STOWELL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

At December 31, 2016 and 2015, the carrying amount of the District's deposits with financial institutions was \$3,277,216 and \$3,653,879, respectively, and the bank balance was \$3,277,216 and \$3,653,931, respectively.

	<u>2016</u>	<u>2015</u>
Amount insured by the FDIC	\$ 731,047	\$ 853,909
Amount collateralized with securities held by the pledging financial institution's trust department in the District's name	1,681,029	873,625
Uncollateralized amount	<u>865,140</u>	<u>1,926,397</u>
Total bank balance	<u>\$ 3,277,216</u>	<u>\$ 3,653,931</u>

NOTE 4 – INVESTMENTS

The District has funds invested in TexSTAR which is reported as cash and equivalents. TexSTAR is a local government investment pool created under the Interlocal Cooperation Act specifically tailored to meet Texas state and local government investment objectives of preservation of principal, daily liquidity, and competitive yield. TexSTAR is administered by First Southwest Asset Management, Inc. and JP Morgan Chase. The fund is rated AAAM by Standard and Poor's and maintains a maturity of 60 days or less, with a maximum maturity of 13 months for any individual security. The fund seeks to maintain a constant dollar objective and fulfills all requirements of the Texas Public Funds Investment Act for local government investment pools. At December 31, 2016 and 2015, the carrying amount of the District's deposits with financial institutions was \$654,500 and \$152,521, respectively. Separate financial statements can be obtained by sending TexSTAR a fax or calling 1-800-TEX-STAR.

TexSTAR is a member of Securities Investor Protection Corporation (SIPC). The SIPC provides \$500,000 of coverage for missing securities, including \$250,000 for claims of cash awaiting reinvestment. Market losses are not covered by SIPC.

The District's investments may be exposed to the following types of risk:

Interest Rate Risk – Interest rate risk is the risk that the market values of investments will change based on changes in market interest rates. The District limits maturities to one year or less as a means of managing its exposure to fair value losses arising from increasing interest rates. State investment pools are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At December 31, 2016 and 2015, the District's investments in TexSTAR was rated AAA by Standard & Poor's.

**WINNIE-STOWELL HOSPITAL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2016 AND 2015**

NOTE 4 – INVESTMENTS (CONTINUED)

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. TexSTAR is managed to fulfill all requirements of the Texas Public Funds Investment Act.

Concentration of Credit Risk – The District places no limit on the amount that may be invested in any one issuer. At December 31, 2016 and 2015, the investment in state investment pools was approximately 17% and 4% of total cash and cash equivalents respectively.

NOTE 5 – NURSING HOME ACCOUNTS RECEIVABLE

Concentration of Credit Risk – The District grants credit without collateral to its patients, most of whom are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31 is as follows:

	<u>2016</u>	<u>2015</u>
Medicare	31%	31%
Medicaid	55%	56%
Managed Care	3%	3%
Patients	11%	10%
Total	<u>100%</u>	<u>100%</u>

NOTE 6 – SALES TAX RECEIVABLE

Sales taxes are reported as revenues in the period for which they are collected. Tax revenue for 2016 and 2015 was \$542,158 and \$587,235, respectively. As of December 31, 2016 and 2015, the balance of sales tax receivable and its related allowance for uncollectible taxes are as follows:

	<u>2016</u>	<u>2015</u>
Taxes Receivable	<u>\$ 91,676</u>	<u>116,207</u>

WINNIE-STOWELL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015

NOTE 7 – CAPITAL ASSETS

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

	<u>Balance 12/31/15</u>	<u>Additions</u>	<u>Reclass/ Retirements</u>	<u>Balance 12/31/16</u>
Equipment	\$ 140,655	-	\$ -	\$ 140,655
Totals at Historical Cost	140,655	-	-	140,655
Less Accumulated Depreciation for:				
Equipment	<u>(129,177)</u>	<u>(4,608)</u>	<u>-</u>	<u>(133,785)</u>
Total Accumulated Depreciation	<u>(129,177)</u>	<u>(4,608)</u>	<u>-</u>	<u>(133,785)</u>
Capital Assets, Net	<u>\$ 11,478</u>	<u>\$ (4,608)</u>	<u>\$ -</u>	<u>\$ 6,870</u>
	<u>Balance 12/31/14</u>	<u>Additions</u>	<u>Reclass/ Retirements</u>	<u>Balance 12/31/15</u>
Land	\$ -	\$ 149,920	\$ (149,920)	\$ -
Building and improvements	-	261,230	(261,230)	-
Equipment	<u>140,655</u>	<u>-</u>	<u>-</u>	<u>140,655</u>
Totals at Historical Cost	140,655	411,150	(411,150)	140,655
Less Accumulated Depreciation for:				
Equipment	<u>(106,778)</u>	<u>(22,399)</u>	<u>-</u>	<u>(129,177)</u>
Total Accumulated Depreciation	<u>(106,778)</u>	<u>(22,399)</u>	<u>-</u>	<u>(129,177)</u>
Capital Assets, Net	<u>\$ 33,877</u>	<u>\$ 388,751</u>	<u>\$ (411,150)</u>	<u>\$ 11,478</u>

Depreciation expense for the years ended December 31, 2016 and 2015, was \$6,261 and \$22,399 respectively.

**WINNIE-STOWELL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

NOTE 8 – ASSETS HELD FOR SALE

At December 31, 2015, Assets Held for Sale consists of land and building purchased during 2015 in the amount of \$411,150. The land and building were sold on March 23, 2016 for \$325,000. Net loss on sale of asset recorded in 2016 was approximately \$89,000.

NOTE 9 – NOTES PAYABLE

Following is a summary of notes payable at December 31:

	<u>Balance 12/31/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/16</u>
(5) Neches Capital	\$ 4,150,000	\$ -	\$ (4,150,000)	\$ -
(6) Neches Capital	3,610,000	-	(3,610,000)	-
(7) Neches Capital	3,610,000	10,000	-	3,620,000
Total Notes Payable	\$ 11,370,000	\$ 10,000	\$ (7,760,000)	\$ 3,620,000

	<u>Balance 12/31/14</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/15</u>
(1) Neches Capital	\$ 1,551,000	\$ -	\$ (1,551,000)	\$ -
(2) Neches Capital	4,660,000	-	(4,660,000)	-
(3) Neches Capital	-	4,140,000	(4,140,000)	-
(4) Neches Capital	-	2,460,000	(2,460,000)	-
(5) Neches Capital	-	4,150,000	-	4,150,000
(6) Neches Capital	-	3,610,000	-	3,610,000
(7) Neches Capital	-	3,610,000	-	3,610,000
Total Notes Payable	\$ 6,211,000	\$ 17,970,000	\$ (12,811,000)	\$ 11,370,000

The terms and due dates of the District's notes payable at December 31, 2016 and 2015 follow:

- (1) Neches Capital – 16.8% note payable with all outstanding principal and interest due January 31, 2015 and is collateralized by cash and investments. Paid in full during fiscal year 2015.
- (2) Neches Capital – 16.8% note payable will all outstanding principal and interest due March 1, 2015 and is collateralized by cash and investments. Paid in full during fiscal year 2015.
- (3) Neches Capital – 16.8% note payable with all outstanding principal and interest due November 9, 2015 and is collateralized by cash and investments. Paid in full during fiscal year 2015.

**WINNIE-STOWELL HOSPITAL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2016 AND 2015**

NOTE 9 – NOTES PAYABLE (CONTINUED)

- (4) Neches Capital – 16.8% note payable with all outstanding principal and interest due May 7, 2015 and is collateralized by cash and investments. Paid in full during fiscal year 2015.
- (5) Neches Capital – 16.8% note payable with all outstanding principal and interest due February 1, 2016 and is collateralized by cash and investments. Paid in full during fiscal year 2016.
- (6) Neches Capital – 16.8% note payable with all outstanding principal and interest due May 6, 2016 and is collateralized by cash and investments. Paid in full during fiscal year 2016.
- (7) Neches Capital – 16.8% note payable with all outstanding principal and interest due August 9, 2016 and is collateralized by cash and investments.

NOTE 10 – LONG TERM DEBT

The following is a summary of long-term debt at December 31:

	<u>Balance 12/31/15</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/16</u>	<u>Due Within One Year</u>
Prosperity Bank	<u>\$ 300,557</u>	<u>\$ -</u>	<u>\$ (300,557)</u>	<u>\$ -</u>	<u>\$ -</u>

	<u>Balance 12/31/14</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance 12/31/15</u>	<u>Due Within One Year</u>
Prosperity Bank	<u>\$ -</u>	<u>\$ 320,000</u>	<u>\$ (19,443)</u>	<u>\$ 300,557</u>	<u>\$ -</u>

The terms and due date of the District’s long-term debt at December 31, 2015 and December 31, 2014 follow:

- 4.5% promissory note payable to Prosperity Bank, due January 30, 2025 in monthly installments, collateralized by property. The promissory note payable was paid in full during 2016.

In 2016 and 2015, total interest incurred was \$1,485,807 and \$1,536,970, respectively, all of which was charged to operations.

**WINNIE-STOWELL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

NOTE 11 – INDIGENT CARE

The District is responsible for providing healthcare for residents of the District that qualify under the indigent program guidelines. Chambers County agreed to manage the indigent care program on behalf of the District in return for an administrative fee of 5% of indigent care payments. During fiscal year 2015, this contract was ended and the District began operating the indigent care program themselves, by hiring an indigent care director in March 2015. In addition, the District is part of an indigent care assistance agreement with Winnie Community Hospital (the “Hospital”). This agreement is intended to reimburse the Hospital for services provided to residents of the District. The District incurred expense for indigent care and assistance in the amount of \$584,310 and \$2,158,540 for 2016 and 2015, respectively.

NOTE 12 – NURSING HOME OPERATIONS

During 2014, the District entered into operations transfer agreements with thirteen nursing facilities which transferred the operations and certain operating assets of each facility. The District has also received an assignment or transfer of the Medicare and Medicaid Provider agreements for each facility. In addition to the operations transfer agreements, the District has also entered into a lease agreement with each facility for the lease of real property, fixed assets, and associated equipment that encompass the nursing homes’ physical properties. The total rental expense paid to all facilities was \$6,995,511 and \$6,757,457 for December 31, 2016 and 2015, respectively.

Also, during fiscal year 2014, The District has executed a management agreement with LTC Group, LLC to provide certain operational and clinical review services for all of the nursing home facilities on behalf of the Hospital District. The initial term of these agreements are through August 31, 2016, unless sooner terminated. These agreements shall be automatically renewed for successive two year periods unless either party cancels in writing on or before 90 days prior to the end of the current term. Under these agreements, the District has paid total service fees of \$8,356,735 and \$3,390,694, respectively, which is recorded in other operating expenses on the statements of revenues, expenses, and changes in net position for the year ended December 31, 2016 and 2015.

In connection with these agreements, the District has recorded all patient revenue and the related accounts receivable. The District recorded \$104,043,082 and \$100,635,567 in net patient related revenue for the years ended December 31, 2016 and 2015, respectively. These revenues are recorded as Net Nursing Home Patient Service Revenues on the statements of revenues, expenses, and changes in net position.

Additionally, the District has entered into separate management agreements whereby each facility is managed by a third-party in which the District pays monthly fees for management services and operating expenses including quality incentives, if any, based upon the terms of each individual agreement. These fees totals \$4,498,752 and \$4,527,603 for the years ended December 31, 2016 and 2015, respectively. These expenses are recorded as Nursing Home expenses on the statements of revenues, expenses, and changes in net position. Amounts due and unpaid as of December 31, 2016 and 2015 for these expenses are \$10,662,676 and \$23,421,115, respectively.

**WINNIE-STOWELL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

NOTE 12 – NURSING HOME OPERATIONS (CONTINUED)

Nursing Facility Minimum Payment Amounts Program (MPAP) – Effective November 1, 2014, HHSC implemented a new Minimum Payment Amounts Program (MPAP) for non-state government-owned nursing facilities. The MPAP was created by HHSC to replace the Nursing Facility Upper Payment Limit Supplemental Payment Program. The District participated in this program during the years ended December 31, 2016 and 2015. In 2016 and 2015, the District contributed approximately \$10,137,073 and \$15,540,842, respectively, as the state share of the minimum payment amount in the form of an intergovernmental transfer (IGT). In 2016 and 2015, the state claimed the matching federal funds and made supplemental payments of approximately \$24,443,331 and \$35,388,394, respectively. The District has recorded an MPAP receivables of \$11,471,000 and \$19,662,330 at December 31, 2016 and 2015, respectively. HHSC transitioned MPAP to a new Quality Incentive Payment Program effective September 1, 2016.

Quality Incentive Payment Program – During its 84th session, the Texas Legislature directed HHSC to transition MPAP to a new Quality Incentive Payment Program (QIPP) effective September 1, 2016, and HHSC will implement QIPP on September 1, 2017. QIPP will require participating facilities meeting certain qualifying criteria to submit projects to HHSC requesting the additional funding as supported in the individual projects. These projects are expected to improve quality and innovation in the provision of nursing facility services, including but not limited to payment incentives to establish culture change, small house models, staffing enhancements and outcome measures to improve the quality of care and life for nursing facility residents. A portion of the additional funding will be funded through intergovernmental transfer (IGT) payments from each participating provider. QIPP IGTs for a specific capitation rate period will be due to HHSC approximately six months prior to the beginning of the rate period.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Litigation – The District is, from time to time, subject to claims and suits for damages, including damages for personal injuries to patients and others, most of which are covered as to risk and amount. In the opinion of management, there were no known pending legal proceedings that could have a material effect on the District’s financial position or results of operations.

NOTE 14 – MALPRACTICE CLAIMS

The District is a unit of government covered by the Texas Tort Claims Acts which, by statute, limits its liability to \$100,000 per person and \$300,000 for each single occurrence. These limits coincide with the malpractice insurance coverage maintained by the District, which is purchased under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the District’s claims experience, no such accrual has been made.

**WINNIE-STOWELL HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2016 AND 2015**

NOTE 15 – SUBSEQUENT EVENTS

Subsequent to year end, the District entered into operations transfer agreements with an additional six nursing facilities which transferred the operations and certain operating assets of each facility. The District has also received an assignment or transfer of the Medicare and Medicaid Provider agreements for each facility. In addition to the operations transfer agreements, the District has also entered into a lease agreement with each facility for the lease of real property, fixed assets, and associated equipment that encompass the nursing homes' physical properties.

The date to which events occurring after December 31, 2016, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosure is January 24, 2018, which is the date on which the financial statements were available to be issued.

DURBIN & COMPANY, L. L. P.

Certified Public Accountants

2950 50th Street
Lubbock, Texas 79413
(806) 791-1591
Fax (806) 791-3974

ACCOUNTANT'S REPORT ON OTHER FINANCIAL INFORMATION

Management and the Board of Directors
Winnie-Stowell Hospital District
Winnie, Texas

We have audited the financial statements of Winnie-Stowell Hospital District as of and for the years ended December 31, 2016 and 2015, and our report thereon dated January 24, 2018, which expressed an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The other financial information is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Durbin & Company, L.L.P.

Durbin and Company
Lubbock, Texas
January 24, 2018

WINNIE-STOWELL HOSPITAL DISTRICT
SUPPLEMENTAL STATEMENT OF NET POSITION

DECEMBER 31, 2016

ASSETS:	District	Nursing Homes	Eliminations	Total
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 3,827,391	\$ 125,830	\$ (125,830)	\$ 3,827,391
Short Term Investments	104,325	-	-	104,325
Patient Accounts Receivable, Net of Allowance	-	9,443,383	-	9,443,383
Nursing Home Supplemental Payment Receivable	-	11,471,000	-	11,471,000
Other Receivables	11,472,675	-	(11,471,000)	1,675
Sales Taxes Receivable	91,676	-	-	91,676
Total Current Assets	15,496,067	21,040,213	(11,596,830)	24,939,450
 PROPERTY AND EQUIPMENT				
Depreciable Capital Assets, Net	6,870	-	-	6,870
Total Assets	\$ 15,502,937	\$ 21,040,213	\$ (11,596,830)	\$ 24,946,320

WINNIE-STOWELL HOSPITAL DISTRICT
SUPPLEMENTAL STATEMENT OF NET POSITION

DECEMBER 31, 2016

LIABILITIES AND NET POSITION:	District	Nursing Homes	Eliminations	Total
CURRENT LIABILITIES				
Accounts Payable	\$ 5,733,452	\$ 16,400,224	\$ (11,471,000)	\$ 10,662,676
Accrued Payroll, Benefits, and Related Liabilities	2,935	-	-	2,935
Notes Payable	3,620,000	-	-	3,620,000
Due to Affiliate	125,830	-	(125,830)	-
Total Current Liabilities	9,482,217	16,400,224	(11,596,830)	14,285,611
Total Liabilities	9,482,217	16,400,224	(11,596,830)	14,285,611
NET POSITION				
Invested in Capital Assets Net of Related Debt	6,870	-	-	6,870
Unrestricted	6,013,850	4,639,989	-	10,653,839
Total Net Position	6,020,720	4,639,989	-	10,660,709
Total Liabilities and Net Position	\$ 15,502,937	\$ 21,040,213	\$ (11,596,830)	\$ 24,946,320

WINNIE-STOWELL HOSPITAL DISTRICT

SUPPLEMENTAL STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2016

	<u>District</u>	<u>Nursing Homes</u>	<u>Eliminations</u>	<u>Total</u>
OPERATING REVENUES:				
Net Nursing Home Patient Service Revenue	\$ 14,306,258	\$ 114,180,155	\$ (24,443,331)	\$ 104,043,082
Other Revenue	9,554	238,259	-	247,813
Total Operating Revenues	<u>14,315,812</u>	<u>114,418,414</u>	<u>(24,443,331)</u>	<u>104,290,895</u>
OPERATING EXPENSES:				
Salaries	71,331	-	-	71,331
Employee Benefits	4,975	-	-	4,975
Professional Fees and Purchased Services	1,100	-	-	1,100
Nursing Home Expense	7,922,952	115,731,415	\$ (24,443,331)	99,211,036
Indigent Care	584,310	-	-	584,310
Legal and Consulting Fees	2,446,595	-	-	2,446,595
Other Operating	674,427	-	-	674,427
Depreciation and Amortization	6,261	-	-	6,261
Total Operating Expenses	<u>11,711,951</u>	<u>115,731,415</u>	<u>(24,443,331)</u>	<u>103,000,035</u>
Operating Income (Loss)	2,603,861	(1,313,001)	-	1,290,860
NONOPERATING REVENUES (EXPENSES):				
Sales Tax Revenue	542,158	-	-	542,158
Investment Income	7,199	-	-	7,199
Interest Expense	(1,485,807)	-	-	(1,485,807)
Gain (Loss) on Disposal of Assets	(89,107)	-	-	(89,107)
Total Nonoperating Revenues (Expenses)	<u>(1,025,557)</u>	<u>-</u>	<u>-</u>	<u>(1,025,557)</u>
Increase (Decrease) in Net Position	1,578,304	(1,313,001)	-	265,303
Net Position, Beginning of Year	<u>4,442,416</u>	<u>5,952,990</u>	<u>-</u>	<u>10,395,406</u>
Net Position, End of Year	<u>\$ 6,020,720</u>	<u>\$ 4,639,989</u>	<u>\$ -</u>	<u>\$ 10,660,709</u>

WINNIE-STOWELL HOSPITAL DISTRICT
SUPPLEMENTAL STATEMENT OF NET POSITION

DECEMBER 31, 2015

ASSETS:	<u>District</u>	<u>Nursing Homes</u>	<u>Eliminations</u>	<u>Total</u>
CURRENT ASSETS				
Cash and Cash Equivalents	\$ 3,702,512	\$ 540,176	\$ (540,179)	\$ 3,702,509
Short Term Investments	103,909	-	-	103,909
Patient Accounts Receivable, Net of Allowance	-	12,135,389	-	12,135,389
Estimated Third-Party Payor Settlements	-	19,662,330	-	19,662,330
Other Receivables	22,068,034	-	(19,662,338)	2,405,696
Sales Taxes Receivable	<u>116,207</u>	<u>-</u>	<u>-</u>	<u>116,207</u>
Total Current Assets	25,990,662	32,337,895	(20,202,517)	38,126,040
ASSETS HELD FOR SALE	411,150	-	-	411,150
PROPERTY AND EQUIPMENT				
Depreciable Capital Assets, Net	<u>11,478</u>	<u>-</u>	<u>-</u>	<u>11,478</u>
 Total Assets	 <u>\$ 26,413,290</u>	 <u>\$ 32,337,895</u>	 <u>\$ (20,202,517)</u>	 <u>\$ 38,548,668</u>

WINNIE-STOWELL HOSPITAL DISTRICT
SUPPLEMENTAL STATEMENT OF NET POSITION

DECEMBER 31, 2015

LIABILITIES AND NET POSITION:	District	Nursing Homes	Eliminations	Total
CURRENT LIABILITIES				
Current Portion of Long-Term Debt	\$ 26,771	\$ -	\$ -	\$ 26,771
Accounts Payable	9,758,895	13,662,220	(6,939,653)	16,481,462
Accrued Payroll, Benefits, and Related Liabilities	1,243	-	-	1,243
Notes Payable	11,370,000	-	-	11,370,000
Due to Affiliate	540,179	12,722,685	(13,262,864)	-
Total Current Liabilities	21,697,088	26,384,905	(20,202,517)	27,879,476
NONCURRENT LIABILITIES				
Long-Term Debt, Net of Current Portion	273,786	-	-	273,786
Total Liabilities	21,970,874	26,384,905	(20,202,517)	28,153,262
NET POSITION				
Invested in Capital Assets Net of Related Debt	(289,079)	-	-	(289,079)
Unrestricted	4,731,495	5,952,990	-	10,684,485
Total Net Position	4,442,416	5,952,990	-	10,395,406
Total Liabilities and Net Position	<u>\$ 26,413,290</u>	<u>\$ 32,337,895</u>	<u>\$ (20,202,517)</u>	<u>\$ 38,548,668</u>

WINNIE-STOWELL HOSPITAL DISTRICT

SUPPLEMENTAL STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEAR ENDED DECEMBER 31, 2015

	<u>District</u>	<u>Nursing Homes</u>	<u>Eliminations</u>	<u>Total</u>
OPERATING REVENUES:				
Net Nursing Home Patient Service Revenue	\$ 19,829,943	\$ 116,176,409	\$ (35,370,785)	\$ 100,635,567
Other Revenue	<u>13,182</u>	<u>690,008</u>	<u>-</u>	<u>703,190</u>
Total Operating Revenues	19,843,125	116,866,417	(35,370,785)	101,338,757
OPERATING EXPENSES:				
Salaries	53,912	-	-	53,912
Employee Benefits	4,240	-	-	4,240
Professional Fees and Purchased Services	3,472	-	-	3,472
Nursing Home Expense	11,091,457	113,246,820	(35,370,785)	88,967,492
Indigent Care	2,158,540	-	-	2,158,540
Legal and Consulting Fees	3,519,948	-	-	3,519,948
Other Operating	285,340	-	-	285,340
Depreciation and Amortization	<u>22,399</u>	<u>-</u>	<u>-</u>	<u>22,399</u>
Total Operating Expenses	<u>17,139,308</u>	<u>113,246,820</u>	<u>(35,370,785)</u>	<u>95,015,343</u>
Operating Income (Loss)	2,703,817	3,619,597	-	6,323,414
NONOPERATING REVENUES (EXPENSES):				
Sales Tax Revenue	587,235	-	-	587,235
Investment Income	2,971	-	-	2,971
Interest Expense	(1,536,970)	-	-	(1,536,970)
Other Non Operating	<u>(17,612)</u>	<u>-</u>	<u>-</u>	<u>(17,612)</u>
Total Nonoperating Revenues (Expenses)	<u>(964,376)</u>	<u>-</u>	<u>-</u>	<u>(964,376)</u>
Increase (Decrease) in Net Position	1,739,441	3,619,597	-	5,359,038
Net Position, Beginning of Year	<u>2,702,975</u>	<u>2,333,393</u>	<u>-</u>	<u>5,036,368</u>
Net Position, End of Year	<u>\$ 4,442,416</u>	<u>\$ 5,952,990</u>	<u>\$ -</u>	<u>\$ 10,395,406</u>