



**TABLE OF CONTENTS**

*Winnie-Stowell Hospital District*

*For the Years Ended  
December 31, 2018 and 2017*

Management Letter.....Page 1  
Governance Letter.....Page 2

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

In planning and performing our audit of the financial statements of Winnie-Stowell Hospital District as of and for the year ended December 31, 2018, in accordance with auditing standards generally accepted in the United States of America, we considered 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.

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.

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

This communication is intended solely for the information and use of management, Board of Directors, and others within Winnie-Stowell Hospital District, and is not intended to be, and should not be, used by anyone other than these specified parties.

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

Durbin & Company, L.L.P.  
Lubbock, Texas  
December 14, 2019

December 14, 2019

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, 2018. 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 March 5, 2019. 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. 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 those related to the Quality Incentive Payment Program (QIPP). 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. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

*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 December 14, 2019.

*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 & Company, L.L.P.  
Lubbock, Texas  
December 14, 2019

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

**For the Years Ended  
December 31, 2018 and 2017**



## 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, 2018 and 2017, 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, 2018 and 2017, 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 & Company, L.L.P.  
Lubbock, Texas  
December 14, 2019



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

**Management's Discussion and Analysis**

**For the Years Ended  
December 31, 2018 and 2017**

**WINNIE-STOWELL HOSPITAL DISTRICT**  
**MANAGEMENT'S 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, 2018 and 2017. 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 2018 by \$1,585,436 or 12.5% and increased in 2017 by \$1,997,603 or 18.7%.
- The District's net patient service revenue increased in 2018 by \$66,167,581 or 53.7% and increased in 2017 by \$19,205,364 or 18.5%.
- The District's operating expenses increased in 2018 by \$66,253,892 or 54.6% and increased in 2017 by \$18,241,993 or 17.7%.
- The District's non-operating revenues and expenses increased in 2018 by (\$238,102) or (238.0%) and decreased in 2017 by \$925,515 or 90.2%.

**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>2018</u>	<u>2017</u>	<u>2016</u>
Assets:			
Current Assets	\$ 43,571,305	\$ 34,961,573	\$ 24,939,450
Capital Assets (net)	-	-	6,870
Total Assets	<u>\$ 43,571,305</u>	<u>\$ 34,961,573</u>	<u>\$ 24,946,320</u>
Liabilities:			
Other Current and Non-Current	<u>\$ 29,327,557</u>	<u>\$ 22,303,261</u>	<u>\$ 14,285,611</u>
Total Liabilities	<u>29,327,557</u>	<u>22,303,261</u>	<u>14,285,611</u>
Total Net Position	<u>14,243,748</u>	<u>12,658,312</u>	<u>10,660,709</u>
Total Liabilities and Net Position	<u>\$ 43,571,305</u>	<u>\$ 34,961,573</u>	<u>\$ 24,946,320</u>

A significant component of the change in the District’s assets is the increase in patient accounts receivable in the amount of \$3,710,887 in 2018, and the increase in patient accounts receivable of \$9,310,252 in 2017. Another significant component of the change in the District’s assets is the increase in nursing home supplemental payments receivable in the amount of \$1,336,425 in 2018 and the decrease in nursing home supplement payments receivable of (\$8,322,910) in 2017.

**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 2018 and 2017, the District's net position increased in 2018 by \$1,585,436 or 12.5% and increased in 2017 by \$1,997,603 or 18.7%.

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Revenues:			
Net Patient Service Revenue	\$ 189,416,027	\$ 123,248,446	\$ 104,043,082
Other Operating Revenue	9,734	97,488	247,813
Total Operating Revenue	<u>189,425,761</u>	<u>123,345,934</u>	<u>104,290,895</u>
Operating Expenses:			
Salaries	75,135	78,708	71,331
Employee Benefits	6,081	6,337	4,975
Professional Fees and Purchased Services	-	1,000	1,100
Nursing Home Expenses	178,967,254	118,178,248	99,211,036
Indigent Care	1,257,687	733,903	560,883
Legal and Consulting Fees	1,739,724	757,604	2,482,440
Other Operating	5,456,300	1,485,619	668,270
Depreciation and Amortization	-	6,870	6,261
Total Operating Expenses	<u>187,502,181</u>	<u>121,248,289</u>	<u>103,006,296</u>
Operating Income (Loss)	<u>1,923,580</u>	<u>2,097,645</u>	<u>1,284,599</u>
Nonoperating Revenues and (Expenses):			
Sales Tax Revenue	500,912	504,963	542,158
Investment Income	48,674	11,234	7,199
Interest Expense	(887,730)	(616,239)	(1,485,807)
Gain (Loss) on Disposal of Assets	-	-	(89,107)
Total Nonoperating Revenue / (Expense)	<u>(338,144)</u>	<u>(100,042)</u>	<u>(1,025,557)</u>
Increase (Decrease) in Net Position	<u>\$ 1,585,436</u>	<u>\$ 1,997,603</u>	<u>\$ 259,042</u>

**Operating Income (Loss)**

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 (loss) of \$1,923,580 and \$2,097,645 in 2018 and 2017, 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 (\$4,051) less in taxes in 2018, while in 2017 the taxes collected decreased by (\$37,195). Nonoperating expenses consist primarily of interest expense. The District paid (\$271,491) less in interest in 2018 and \$869,568 less in 2017.

**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.

**DEBT ADMINISTRATION**

**Debt**

At December 31, 2018 and 2017, the District had \$12,684,865 and \$7,624,472, respectively, in notes payable as detailed in Note 8 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**

**Financial Statements**

**For the Years Ended  
December 31, 2018 and 2017**

**WINNIE-STOWELL HOSPITAL DISTRICT**  
**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2018 AND 2017**

<b>ASSETS:</b>	<u>2018</u>	<u>2017</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 5,230,483	\$ 3,718,793
Short-Term Investments	2,839,758	2,804,953
Patient Accounts Receivable, Net of Allowance	22,464,522	18,753,635
Nursing Home Supplemental Payment Receivable	4,484,515	3,148,090
Prepaid and Other Current Assets	8,460,351	6,444,426
Sales Taxes Receivable	<u>91,676</u>	<u>91,676</u>
Total current assets	<u>43,571,305</u>	<u>34,961,573</u>
Total Assets	<u>\$ 43,571,305</u>	<u>\$ 34,961,573</u>

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

**WINNIE-STOWELL HOSPITAL DISTRICT**  
**STATEMENTS OF NET POSITION**  
**DECEMBER 31, 2018 AND 2017**

<b>LIABILITIES AND NET POSITION:</b>	<u>2018</u>	<u>2017</u>
<b>CURRENT LIABILITIES</b>		
Accounts Payable	16,640,914	14,675,978
Accrued Payroll, Benefits, and Related Liabilities	1,778	2,811
Notes Payable	<u>12,684,865</u>	<u>7,624,472</u>
Total Current Liabilities	<u>29,327,557</u>	<u>22,303,261</u>
Total Liabilities	<u>29,327,557</u>	<u>22,303,261</u>
<b>NET POSITION</b>		
Unrestricted	<u>14,243,748</u>	<u>12,658,312</u>
Total Net Position	<u>14,243,748</u>	<u>12,658,312</u>
Total Liabilities and Net Position	<u>\$ 43,571,305</u>	<u>\$ 34,961,573</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, 2018 AND 2017**

	2018	2017
<b>OPERATING REVENUES:</b>		
Net Nursing Home Patient Service Revenue	\$ 189,416,027	\$ 123,248,446
Other Revenue	9,734	97,488
Total Operating Revenues	189,425,761	123,345,934
<b>OPERATING EXPENSES:</b>		
Salaries	75,135	78,708
Employee Benefits	6,081	6,337
Professional Fees and Purchased Services	-	1,000
Nursing Home Expenses	178,967,254	118,178,248
Indigent Care	1,257,687	733,903
Legal and Consulting Fees	1,739,724	757,604
Other Operating	5,456,300	1,485,619
Depreciation and Amortization	-	6,870
Total Operating Expenses	187,502,181	121,248,289
Operating Income (Loss)	1,923,580	2,097,645
<b>NONOPERATING REVENUES (EXPENSES):</b>		
Sales Tax Revenue	500,912	504,963
Investment Income	48,674	11,234
Interest Expense	(887,730)	(616,239)
Other Non Operating Revenue (Expenses)	-	-
Total Nonoperating Revenues (Expenses)	(338,144)	(100,042)
Increase (Decrease) in Net Position	1,585,436	1,997,603
Net Position, Beginning of Year	12,658,312	10,660,709
Net Position, End of Year	\$ 14,243,748	\$ 12,658,312

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, 2018 AND 2017**

	2018	2017
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>		
Receipts from and on Behalf of Patients	\$ 174,179,095	\$ 122,261,104
Other Receipts and Payments, net	9,734	11,988
Indigent Care Support	(4,594,570)	(733,903)
Payments to Suppliers and Contractors	(172,687,764)	(122,766,420)
Payments to Employees	(82,249)	(85,169)
Net cash provided by (used in) operating activities	(3,175,754)	(1,312,400)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment Earnings	48,674	11,234
Purchase of Investments	(34,805)	(2,700,628)
Net Cash Provided by (Used in) Investing Activities	13,869	(2,689,394)
<b>CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Sales Tax	500,912	504,963
Principal Payments on Debt and Notes Payable	(5,624,472)	(3,620,000)
Proceeds From Issuance of Long-Term Debt and Notes Payable	10,684,865	7,624,472
Interest Payments on Long-Term Debt and Notes Payable	(887,730)	(616,239)
Net Cash Provided by (Used in) Noncapital Financing Activities	4,673,575	3,893,196
Net Increase (Decrease) in Cash and Cash Equivalents	1,511,690	(108,598)
Cash and Cash Equivalents, Beginning of Year	3,718,793	3,827,391
Cash and Cash Equivalents, End of Year	\$ 5,230,483	\$ 3,718,793

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, 2018 AND 2017**

	2018	2017
<b>RECONCILIATION OF CASH AND EQUIVALENTS TO THE BALANCE SHEETS</b>		
Cash and equivalents presented under the following titles:		
Cash and Cash Equivalents	\$ 5,230,483	\$ 3,718,793
	\$ 5,230,483	\$ 3,718,793
<b>RECONCILIATION OF NET INCOME TO NET CASH USED IN OPERATING ACTIVITIES</b>		
Operating Income (Loss)	1,923,580	2,097,645
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Used in Operating Activities:		
Depreciation and Amortization	-	6,870
(Increase) Decrease in:		
Accounts Receivable	(3,710,887)	(9,310,252)
Prepaid Expenses and Other Current Assets	(2,015,925)	(6,442,751)
Nursing Home Supplemental Payment Receivable	(1,336,425)	8,322,910
Increase (Decrease) in:		
Accounts Payable	1,964,936	4,013,302
Accrued Salaries and Benefits Payable	(1,033)	(124)
 Net Cash Provided By (Used in) Operating Activities	 \$ (3,175,754)	 \$ (1,312,400)

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

## **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-fember 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*.

### **Pending Accounting Pronouncements**

**GASB Statement No. 87** – Governmental Accounting Standards Board Statement No. 87, *Leases*. The objective of this Statement is to provide financial statement users with improved accounting and financial reporting for leases by establishing a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. The requirements of this Statement are effective for periods beginning after December 15, 2019.

**GASB Statement No. 88** – Governmental Accounting Standards Board Statement No. 88, *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The requirements of this Statement are effective for periods beginning after June 15, 2018.

**GASB Statement No. 89** – Governmental Accounting Standards Board Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are to enhance the relevance and comparability of information about the capital assets and the cost incurred before the end of a construction period. The requirements of this Statement are effective for periods beginning after December 15, 2019.

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

### **Pending Accounting Pronouncements (Continued)**

**GASB Statement No. 90** – Governmental Accounting Standards Board Statement No. 90, *Majority Equity Interests*. The objectives of this Statement are to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. The requirements of this Statement are effective for periods beginning after December 15, 2018.

**GASB Statement No. 91** – Governmental Accounting Standards Board Statement No. 91, *Conduit Debt Obligations*. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for periods beginning after December 15, 2020.

**Accounting Standards Update (ASU) No. 2014-09** – In May 2014, the Financial Accounting Standards Board (“FASB”) issued ASU No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 was implemented by the FASB to determine whether an entity should recognize revenue. An entity should recognize revenue to depict the transfers of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018, with early implementation permitted. Management is currently evaluating the effects 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.

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

**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

**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
--------------------------	---------------

**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.

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

**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 20<sup>th</sup> 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.

**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 2017 financial statements to conform to the 2018 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>2018</u>	<u>2017</u>
SNF Patient Revenue	\$ 173,676,985	\$ 119,923,254
Other Revenue	8,613,545	2,825,883
Supplemental Payments	<u>10,189,620</u>	<u>2,467,673</u>
Gross Nursing Home Patient Service Revenue	192,480,150	125,216,810
Provision for Bad Debts	<u>(3,064,123)</u>	<u>(1,968,364)</u>
Net Nursing Home Patient Service Revenue	<u>\$ 189,416,027</u>	<u>\$ 123,248,446</u>

**NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS**

At December 31, 2018 and 2017, the carrying amount of the District’s deposits with financial institutions was \$7,397,900 and \$5,863,535, respectively, and the bank balance was \$7,421,928 and \$6,242,381, respectively.

	<u>2018</u>	<u>2017</u>
Amount insured by the FDIC	\$ 1,106,008	\$ 1,202,803
Amount collateralized with securities held by the pledging financial institution's trust department in the District's name	6,315,920	211,075
Uncollateralized amount	<u>-</u>	<u>4,472,677</u>
Total bank balance	<u>\$ 7,421,928</u>	<u>\$ 5,886,555</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, 2018 and 2017, the carrying amount of the District’s deposits with financial institutions was \$672,341 and \$660,211, 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, 2018 and 2017, the District’s investments in TexSTAR was rated AAA by Standard & Poor’s.

**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.



**NOTE 4 – INVESTMENTS (CONTINUED)**

**Concentration of Credit Risk** – The District places no limit on the amount that may be invested in any one issuer. At December 31, 2018 and 2017, the investment in state investment pools was approximately 13% and 18% 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>2018</u>	<u>2017</u>
Medicare	18%	29%
Medicaid	30%	46%
Managed Care	42%	5%
Patients	10%	20%
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 2018 and 2017 was \$500,912 and \$504,963, respectively. As of December 31, 2018 and 2017, the balance of sales tax receivable and its related allowance for uncollectible taxes are as follows:

	<u>2018</u>	<u>2017</u>
Taxes Receivable	<u>\$ 91,676</u>	<u>91,676</u>

**NOTE 7 – CAPITAL ASSETS**

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

	<u>Balance 12/31/17</u>	<u>Additions</u>	<u>Reclass/ Retirements</u>	<u>Balance 12/31/18</u>
Equipment	\$ 140,655	-	\$ -	\$ 140,655
Totals at Historical Cost	140,655	-	-	140,655
Less Accumulated Depreciation for:				
Equipment	(140,655)	-	-	(140,655)
Total Accumulated Depreciation	(140,655)	-	-	(140,655)
Capital Assets, Net	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

**NOTE 7 – CAPITAL ASSETS (CONTINUED)**

	Balance 12/31/16	Additions	Reclass/ Retirements	Balance 12/31/17
Equipment	140,655	-	-	140,655
Totals at Historical Cost	140,655	-	-	140,655
Less Accumulated Depreciation for:				
Equipment	(133,785)	(6,870)	-	(140,655)
Total Accumulated Depreciation	(133,785)	(6,870)	-	(140,655)
Capital Assets, Net	<u>\$ 6,870</u>	<u>\$ (6,870)</u>	<u>\$ -</u>	<u>\$ -</u>

Depreciation expense for the years ended December 31, 2018 and 2017 was \$-0- and \$6,870, respectively.

**NOTE 8 – NOTES PAYABLE**

Following is a summary of notes payable at December 31:

	Balance 12/31/17	Additions	Reductions	Balance 12/31/18
(10) Salt Creek Capital	\$ 2,437,583	\$ -	\$ (2,437,583)	\$ -
(12) Salt Creek Capital	2,765,389	-	(2,765,389)	-
(13) Salt Creek Capital	-	6,342,432	-	6,342,432
(14) Salt Creek Capital	-	4,342,433	-	4,342,433
(2) Post Oak Bank	2,421,500	-	(421,500)	2,000,000
Total Notes Payable	<u>\$ 7,624,472</u>	<u>\$ 10,684,865</u>	<u>\$ (5,624,472)</u>	<u>\$ 12,684,865</u>
	Balance 12/31/16	Additions	Reductions	Balance 12/31/17
(9) Neches Capital	\$ 3,620,000	\$ -	\$ (3,620,000)	\$ -
(10) Salt Creek Capital	-	2,437,583	-	2,437,583
(12) Salt Creek Capital	-	2,765,389	-	2,765,389
(2) Post Oak Bank	-	2,421,500	-	2,421,500
Total Notes Payable	<u>\$ 3,620,000</u>	<u>\$ 7,624,472</u>	<u>\$ (3,620,000)</u>	<u>\$ 7,624,472</u>

## **NOTE 8 – NOTES PAYABLE (CONTINUED)**

The terms and due dates of the District's notes payable at December 31, 2018 and 2017 follow:

- (9) Neches Capital – 16.8% note payable with all outstanding principal and interest due February 6, 2017 and is collateralized by cash and investments. Paid in full during fiscal year 2017.
- (10) Salt Creek Capital – 16.8% line of credit with all outstanding principal and interest due March 25, 2018 and is collateralized by cash and investments.
- (12) Salt Creek Capital – 16.8% note payable with all outstanding principal and interest due September 1, 2018 and is collateralized by cash and investments.
- (2) Post Oak Bank – 3.5% note payable with all outstanding principal and interest due January 7, 2019 and is collateralized by cash and investments.
- (13) Salt Creek Capital – 16.8% note payable with all outstanding principal and interest due March 30, 2019 and is collateralized by cash and investments.
- (14) Salt Creek Capital – 16.8% note payable with all outstanding principal and interest due September 30, 2019 and is collateralized by cash and investments.

In 2018 and 2017, total interest incurred was \$887,730 and \$616,239, respectively, all of which was charged to operations.

## **NOTE 9 – INDIGENT CARE**

The District is responsible for providing healthcare for residents of the District that qualify under the indigent program guidelines. In March 2015, the District hired an indigent care director and began operating the indigent care program themselves. 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 \$1,257,687 and \$733,903 for the year ended December 31, 2018 and 2017, respectively.

## **NOTE 10 – 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. In fiscal years 2017 and 2018, the District entered into operations transfer agreements with a total of eleven additional nursing homes. 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 home's physical properties. The total rental expense paid to all facilities was \$18,389,937 and \$10,108,467 for the year ended December 31, 2018 and 2017, respectively.

At the time of each transfer agreement, the District 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.

## **NOTE 10 – NURSING HOME OPERATIONS (CONTINUED)**

Under these agreements, the District has paid total service fees of \$5,194,962 and \$1,233,837, 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, 2018 and 2017.

In connection with these agreements, the District has recorded all patient revenue and the related accounts receivable. The District recorded \$189,416,027 and \$123,248,446 in net patient related revenue for the years ended December 31, 2018 and 2017, 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 total \$178,967,254 and \$118,178,248 for the years ended December 31, 2018 and 2017, 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, 2018 and 2017 for these expenses are \$16,640,914 and \$14,675,978, respectively.

**Quality Incentive Payment Program (QIPP)** – 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. The District has recorded a QIPP receivable of 4,484,515 and \$3,148,090 at December 31, 2018 and 2017, respectively.

## **NOTE 11 – 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 12 – 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.

## **NOTE 13 – SUBSEQUENT EVENTS**

The date to which events occurring after December 31, 2018, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosure is December 14, 2019, which is the date on which the financial statements were available to be issued.



**WINNIE STOWELL HOSPITAL DISTRICT**  
WWW.WSHD-TX.ORG

Chair: Edward Murrell  
Sect.: Jeff Rollo  
Dir. Raul Espinosa

P.O. Box 1997  
Winnie, Texas 77665  
Phone: 409-296-1003

Dir. Bobby Way  
Vice Chair: Anthony Stramecki  
Admin. Sherrie Norris  
Indigent Dir.: Patricia Ojeda

December 14, 2019

Durbin & Company, L.L.P.  
2950 50th Street  
Lubbock, Texas 79413

This representation letter is provided in connection with your audit(s) of the financial statements of Winnie-Stowell Hospital District (the "District"), which comprise the statements of net position as of December 31, 2018 and 2017, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to the financial statements, for the purpose of expressing opinions as to whether the financial statements are presented fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement. An omission or misstatement that is monetarily small in amount could be considered material as a result of qualitative factors.

We confirm, to the best of our knowledge and belief, as of December 14, 2019, the following representations made to you during your audit.

**Financial Statements**

- 1) We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated March 5, 2019, including our responsibility for the preparation and fair presentation of the financial statements in accordance with U.S. GAAP and for preparation of the supplementary information in accordance with the applicable criteria.
- 2) The financial statements referred to above are fairly presented in conformity with U.S. GAAP and include all financial information of the District and all component units required by generally accepted accounting principles to be included in the financial reporting entity.
- 3) We acknowledge our responsibility for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

- 4) We acknowledge our responsibility for the design, implementation, and maintenance of internal control to prevent and detect fraud.
- 5) Significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6) Related party relationships and transactions, including revenues, expenses, loans, transfers, leasing arrangements, and guarantees, and amounts receivable from or payable to related parties have been appropriately accounted for and disclosed in accordance with U.S. GAAP.
- 7) Adjustments or disclosures have been made for all events, including instances of noncompliance, subsequent to the date of the financial statements that would require adjustment to or disclosure in the financial statements.
- 8) We are in agreement with the adjusting journal entries you have proposed, and they have been posted to the District's accounts.
- 9) We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted a lawyer concerning litigation, claims, or assessments.
- 10) Guarantees, whether written or oral, under which the District is contingently liable, if any, have been properly recorded or disclosed.
- 11) There are no instances of noncompliance with laws or regulations with respect to Medicare and Medicaid antifraud and abuse statutes, in any jurisdiction, whose effects we believe should be considered for disclosure in the financial statements or as a basis for recording a loss contingency, other than those disclosed or accrued in the financial statements. This is including, but not limited to, the antikickback statute of the Medicare and Medicaid Patient and Program Protection Act of 1987, limitations on certain physician referrals (the Stark law), and the False Claims Act.
- 12) Billings to third-party payors comply in all material respects with applicable coding guidelines and laws and regulations, including those dealing with Medicare and Medicaid antifraud and abuse. Such billings include only those charges for goods and services that were medically necessary; properly approved by regulatory bodies, if required; and properly rendered.
- 13) There have been no investigations, either internal or external, and there are no investigations in progress, relating to compliance with applicable laws and regulations that would have an effect on the amounts reported or disclosed in the financial statements.
- 14) There have been no oral or written communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations, in any jurisdiction, including those related to deficiencies in financial reporting practices; Medicare and Medicaid antifraud and abuse statutes; or other matters that could have a material adverse effect on the financial statements.
- 15) Receivables recorded in the financial statements represent valid claims against debtors for transactions arising on or before the statement of net position date and have been reduced to their estimated net realizable value.
- 16) We have made an adequate provision for estimated adjustments to revenue resulting from issues such as denied claims, changes to home health resource group, resource utilization group, ambulatory payment classification, and diagnostic-related group (DRG) assignments.

- 17) The valuation allowances we have recorded are necessary, appropriate, and properly supported.
- 18) We have made available to you all peer review organization, fiscal intermediary, and third-party payor reports and information.

**Information Provided**

- 19) We have provided you with:
  - a) Access to all information, of which we are aware, that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
  - b) Additional information that you have requested from us for the purpose of the audit.
  - c) Unrestricted access to persons within the District from whom you determined it necessary to obtain audit evidence.
  - d) Minutes of the meetings of the Board of Directors and related committees or summaries of actions of recent meetings for which minutes have not yet been prepared.
- 20) All material transactions have been recorded in the accounting records and are reflected in the financial statements.
- 21) We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
- 22) We have no knowledge of any fraud or suspected fraud that affects the District, including financial reporting related to compliance with existing laws and regulations governing reimbursement from third-party payors, and involves:
  - Management,
  - Employees who have significant roles in internal control, or
  - Others where the fraud could have a material effect on the financial statements.
- 23) We have no knowledge of any allegations of fraud or suspected fraud affecting the District's financial statements communicated by employees, former employees, grantors, regulators, or others.
- 24) We have no knowledge of instances of noncompliance or suspected noncompliance with provisions of laws, regulations, contracts, or grant agreements, or abuse, whose effects should be considered when preparing financial statements.
- 25) We are not aware of any pending or threatened litigation, claims, or assessments or unasserted claims or assessments that are required to be accrued or disclosed in the financial statements, and we have not consulted a lawyer concerning litigation, claims, or assessments.
- 26) We have disclosed to you the identity of the District's related parties and all the related party relationships and transactions of which we are aware.




## **Government-specific**

- 27) There have been no communications from regulatory agencies concerning noncompliance with, or deficiencies in, financial reporting practices, or noncompliance or deficiencies related to existing laws and regulations governing reimbursement from third-party payors.
- 28) We have identified to you any previous audits, attestation engagements, and other studies related to the audit objectives and whether related recommendations have been implemented.
- 29) For cost reports filed with third parties:
- We have properly filed all required Medicare, Medicaid, and similar reports with third parties.
  - We are responsible for the accuracy and propriety of all filed cost reports.
  - Filed cost reports include costs that are appropriate, allowable under applicable reimbursement rules and regulations, patient-related, and properly allocated to applicable payors.
  - The reimbursement methodologies and principles we use are in accordance with applicable rules and regulations.
  - We have given adequate consideration to, and made appropriate provision for, audit adjustments by intermediaries, third-party payors, or other regulatory agencies.
  - We have made provisions, when material, for estimated retroactive adjustments by third-party payors under reimbursement agreements.
  - We have fully disclosed in the cost report all items required to be disclosed, including disputed costs that are claimed to establish a basis for a subsequent appeal.
  - We have recorded third-party settlements that include differences between filed (and to-be-filed) cost reports and calculated settlements that we believe are necessary based on historical experience or new or ambiguous regulations that may be subject to differing interpretations. Although we believe the District is entitled to all amounts claimed on the cost reports, we also believe the differences reflected therein are appropriate.
- 30) The District has no plans or intentions that may materially affect the carrying value or classification of assets, deferred outflows of resources, liabilities, deferred inflows of resources, and fund balance or net position.
- 31) We are responsible for compliance with the laws, regulations, and provisions of contracts and grant agreements applicable to us, including tax or debt limits and debt contracts, and legal and contractual provisions for reporting specific activities in separate funds.
- 32) We have identified and disclosed to you all instances that have occurred or are likely to have occurred, of fraud and noncompliance with provisions of laws and regulations that we believe have a material effect on the financial statements or other financial data significant to the audit objectives, and any other instances that warrant the attention of those charged with governance.
- 33) We have identified and disclosed to you all instances, that have occurred or are likely to have occurred, of noncompliance with provisions of contracts and grant agreements that we believe have a material effect on the determination of financial statement amounts or other financial data significant to the audit objectives.

- 34) We have identified and disclosed to you all instances, that have occurred or are likely to have occurred, of abuse that could be quantitatively or qualitatively material to the financial statements or other financial data significant to the audit objectives.
- 35) There are no violations or possible violations of budget ordinances, laws and regulations (including those pertaining to adopting, approving, and amending budgets), provisions of contracts and grant agreements, tax or debt limits, and any related debt covenants whose effects should be considered for disclosure in the financial statements, or as a basis for recording a loss contingency, or for reporting on noncompliance.
- 36) As part of your audit, you assisted with preparation of the financial statements and related notes. We acknowledge our responsibility as it relates to those nonaudit services, including that we assume all management responsibilities; oversee the services by designating an individual, preferably within senior management, who possesses suitable skill, knowledge, or experience; evaluate the adequacy and results of the services performed; and accept responsibility for the results of the services. We have reviewed, approved, and accepted responsibility for those financial statements and related notes.
- 37) The District has satisfactory title to all owned assets, and there are no liens or encumbrances on such assets nor has any asset been pledged as collateral.
- 38) The District has complied with all aspects of contractual agreements, including existing laws and regulations governing reimbursement from third-party payors, that would have a material effect on the financial statements in the event of noncompliance.
- 39) The financial statements include all component units as well as joint ventures with an equity interest, and properly disclose all other joint ventures and other related organizations.
- 40) The financial statements properly classify all funds and activities in accordance with GASB Statement No. 34.
- 41) All funds that meet the quantitative criteria in GASBS Nos. 34 and 37 for presentation as major are identified and presented as such and all other funds that are presented as major are particularly important to financial statement users.
- 42) Components of net position (net investment in capital assets; restricted; and unrestricted) are properly classified and, if applicable, approved.
- 43) Investments, derivative instruments, and land and other real estate held by endowments are properly valued.
- 44) Provisions for uncollectible receivables have been properly identified and recorded.
- 45) Expenses have been appropriately classified in the statement of revenues, expenses, and changes in net position, and allocations have been made on a reasonable basis.
- 46) Revenues are appropriately classified in the statement of revenues, expenses, and changes in net position.
- 47) Internal and intra-entity activity and balances have been appropriately classified and reported.
- 48) Deposits and investment securities and derivative instruments are properly classified as to risk and are properly disclosed.
- 49) Capital assets, including intangible assets, are properly capitalized, reported, and, if applicable, depreciated.

- 50) We have appropriately disclosed the District's policy regarding whether to first apply restricted or unrestricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available and have determined that net position is properly recognized under the policy.
- 51) We are following our established accounting policy regarding which resources (that is, restricted or unrestricted) are considered to be spent first for expenditures for which more than one resource classification is available. That policy determines the net position classifications for financial reporting purposes.
- 52) We acknowledge our responsibility for the required supplementary information (RSI). The RSI is measured and presented within prescribed guidelines and the methods of measurement and presentation have not changed from those used in the prior period. We have disclosed to you any significant assumptions and interpretations underlying the measurement and presentation of the RSI.

Signature:   
Title: Board Chairman

Signature:   
Title: District Administrator