Winnie-Stowell Hospital District
Winnie, Texas

For the Years Ended
December 31, 2020 and 2019

DURBIN&CO LLP
Certified Public Accountants

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, 2020 and 2019, 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, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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
January 18, 2022

Winnie-Stowell Hospital District
Winnie, Texas

Management's Discussion and Analysis

For the Years Ended
December 31, 2020 and 2019

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, 2020 and 2019. 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 2020 by $26,592 or 0.2% and decreased in 2019 by $449,401 or 3.2%.
- The District's net patient service revenue increased in 2020 by $25,632,349 or 12.2% and increased in 2019 by $20,462,494 or 10.8%.
- The District's operating expenses increased in 2020 by $33,882,114 or 16.2% and increased in 2019 by $22,062,981 or 11.8%.
- The District's non-operating revenues and expenses decreased in 2020 by $8,722,375 or 1129.0% and decreased in 2019 by $434,455 or 128.5%.

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.

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

	2020	2019	2018
Assets:			
Current Assets	$ 79,224,282	$ 55,639,798	$ 43,571,305
Capital Assets (net)	126,462	21,700	-
Total Assets	$ 79,350,744	$ 55,661,498	$ 43,571,305
Liabilities:			
Other Current and Non-Current	$ 55,692,261	$ 41,867,151	$ 29,327,557
Deferred Inflows of Resources	9,837,544	-	-
Total Net Position	13,820,939	13,794,347	14,243,748
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 79,350,744	$ 55,661,498	$ 43,571,305

A significant component of the change in the District's assets is the increase in prepaid and other current assets in the amount of $15,901,307 in 2020, and the increase in patient accounts receivable of $7,133,802 in 2019. A significant component of the change in the District's liabilities, deferred inflows of resources and net position is the increase in deferred inflows of resources of $9,837,544 which is related to the receipt of provider relief funds discussed in Note 13.

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

In 2020 and 2019, the District's net position decreased in 2020 by $26,592 or 0.2% and decreased in 2019 by $449,401 or 3.2%.

	2020	2019	2018
Operating Revenues:			
Net Patient Service Revenue	$ 235,510,870	$ 209,878,521	$ 189,416,027
Other Operating Revenue	13,222	9,839	9,734
Total Operating Revenue	235,524,092	209,888,360	189,425,761
Operating Expenses:			
Salaries	117,525	98,549	75,135
Employee Benefits	10,124	6,863	6,081
Nursing Home Expenses	221,915,400	199,408,758	178,967,254
Indigent Care	622,402	1,673,947	1,257,687
Legal and Consulting Fees	11,201,450	1,868,842	1,739,724
Other Operating	9,577,354	6,508,203	5,456,300
Total Operating Expenses	243,447,276	209,565,162	187,502,181
Operating Income (Loss)	(7,923,184)	323,198	1,923,580
Nonoperating Revenues and (Expenses):			
Sales Tax Revenue	645,787	768,179	500,912
CAREs Act Provider Relief Funds	9,278,334	-	-
Investment Income	43,981	73,238	48,674
Interest Expense	(2,018,326)	(1,614,016)	(887,730)
Total Nonoperating Revenue / (Expense)	7,949,776	(772,599)	(338,144)
Increase (Decrease) in Net Position	$ 26,592	$ (449,401)	$ 1,585,436

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 ($7,923,184) and $323,198 in 2020 and 2019, respectively.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of sales taxes levied by the state and provider relief funds. The District received $122,392 less in taxes in 2020, while in 2019 the taxes collected increased by $267,267. The District recognized provider relief funds of $9,278,334 as of December 31, 2020. Nonoperating expenses consist primarily of interest expense. The District paid $404,310 more in interest in 2020 and $726,286 more in 2019.

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, 2020 and 2019, the District had $23,304,017 and $14,180,780, 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, 2020 and 2019

WINNIE-STOWELL HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

DECEMBER 31, 2020 AND 2019

ASSETS:	2020	2019
CURRENT ASSETS		
Cash and Cash Equivalents	$ 11,079,682	$ 8,228,489
Short-Term Investments	6,109,405	2,893,276
Assets Restricted by Contributors or Grantors	2,060	-
Patient Accounts Receivable, Net of Allowance	28,197,516	29,598,324
Nursing Home Supplemental Payment Receivable	8,380,760	5,334,452
Prepaid and Other Current Assets	25,076,993	9,442,502
Sales Taxes Receivable	111,050	142,755
Total current assets	78,957,466	55,639,798
CAPITAL ASSETS, NET		
Construction-in-Progress	-	21,700
Depreciable Capital Assets, Net	$ 126,462	$ -
Total Capital Assets, Net	$ 126,462	$ 21,700
Total Assets	$ 79,083,928	$ 55,661,498

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

WINNIE-STOWELL HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

DECEMBER 31, 2020 AND 2019

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION:	2020	2019
CURRENT LIABILITIES		
Accounts Payable	32,384,529	27,682,833
Accrued Payroll, Benefits, and Related Liabilities	3,715	3,538
Notes Payable	23,304,017	14,180,780
Total Current Liabilities	55,692,261	41,867,151
Total Liabilities	55,692,261	41,867,151
DEFERRED INFLOWS OF RESOURCES	9,570,728	-
NET POSITION		
Invested in Capital Assets Net of Related Debt	126,462	21,700
Unrestricted	13,694,477	13,772,647
Total Net Position	13,820,939	13,794,347
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 79,083,928	$ 55,661,498

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, 2020 AND 2019

	2020	2019
OPERATING REVENUES:		
Net Nursing Home Patient Service Revenue	$ 235,510,870	$ 209,878,521
Other Revenue	13,222	9,839
Total Operating Revenues	235,524,092	209,888,360
OPERATING EXPENSES:		
Salaries	117,525	98,549
Employee Benefits	10,124	6,863
Nursing Home Expenses	221,915,400	199,408,758
Indigent Care	622,402	1,673,947
Legal and Consulting Fees	1,923,116	1,868,842
Other Operating	19,122,504	6,508,203
Depreciation and Amortization	3,021	-
Total Operating Expenses	243,714,092	209,565,162
Operating Income (Loss)	(8,190,000)	323,198
NONOPERATING REVENUES (EXPENSES):		
Sales Tax Revenue	645,787	768,179
CAREs Act Provider Relief Funds	9,545,150	-
Investment Income	43,981	73,238
Interest Expense	(2,018,326)	(1,614,016)
Total Nonoperating Revenues (Expenses)	8,216,592	(772,599)
Excess of Revenues Over Expenses Before Capital Grants and Contributions	26,592	(449,401)
Increase (Decrease) in Net Position	26,592	(449,401)
Net Position, Beginning of Year	13,794,347	14,243,748
Net Position, End of Year	$ 13,820,939	$ 13,794,347

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, 2020 AND 2019

	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from and on Behalf of Patients	$ 217,499,352	$ 190,643,540
Other Receipts and Payments, net	13,222	9,839
Indigent Care Support	(12,746,337)	(3,911,689)
Payments to Suppliers and Contractors	(225,403,862)	(184,237,051)
Payments to Employees	(127,472)	(103,652)
Net cash provided by (used in) operating activities	(20,765,097)	2,400,987
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Earnings	43,981	73,238
Purchase of Investments	(3,218,189)	(53,518)
Net Cash Provided by (Used in) Investing Activities	(3,174,208)	19,720
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Purchase of Capital Assets	(107,783)	(21,700)
Net Cash Provided by (Used in) Capital and Related	(107,783)	(21,700)
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES		
Sales Tax	677,492	717,100
CAREs Act Provider Relief Funds	19,115,878	-
Principal Payments on Debt and Notes Payable	(14,180,780)	(10,684,865)
Proceeds From Issuance of Long-Term Debt and Notes Payable	23,304,017	12,180,780
Interest Payments on Long-Term Debt and Notes Payable	(2,018,326)	(1,614,016)
Net Cash Provided by (Used in) Noncapital Financing Activities	26,898,281	598,999
Net Increase (Decrease) in Cash and Cash Equivalents	2,851,193	2,998,006
Cash and Cash Equivalents, Beginning of Year	8,228,489	5,230,483
Cash and Cash Equivalents, End of Year	$ 11,079,682	$ 8,228,489

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, 2020 AND 2019

	2020	2019
RECONCILIATION OF CASH AND EQUIVALENTS TO THE BALANCE SHEETS		
Cash and equivalents presented under the following titles:		
Cash and Cash Equivalents	$ 11,079,682	$ 8,228,489
	$ 11,079,682	$ 8,228,489
RECONCILIATION OF NET INCOME TO NET CASH USED IN OPERATING ACTIVITIES		
Operating Income (Loss)	(8,190,000)	323,198
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Used in Operating Activities:		
Depreciation and Amortization	3,021	-
(Increase) Decrease in:		
Accounts Receivable	1,400,808	(7,133,802)
Prepaid Expenses and Other Current Assets	(15,634,491)	(982,151)
Nursing Home Supplemental Payment Receivable	(3,046,308)	(849,937)
Increase (Decrease) in:		
Accounts Payable	4,701,696	11,041,919
Accrued Salaries and Benefits Payable	177	1,760
Net Cash Provided By (Used in) Operating Activities	$ (20,765,097)	$ 2,400,987

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. The District has entered into operations transfer agreements with twenty-five 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. 88 – In April 2018, GASB issued GASB 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 Statement is effective for reporting periods beginning after June 15, 2018. The implementation of this statement had no effect on the change in netposition.

GASB Statement No. 90 – In June 2018, GASB issued GASB Statement No. 90 – *Majority Equity Interests*. The objective of this Statement is 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. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The Statement is effective for periods beginning after December 15, 2018. The implementation of this statement has no effect on the change in net position.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Newly Adopted Accounting Pronouncements (Continued)

GASB Statement No. 95 – In May 2020, the Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stake holders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for the periods beginning after June 15, 2018, or later.

- The effective date for GASB Statement No. 87 has been postponed from reporting periods beginning after December 15, 2019 to reporting periods beginning after June 15, 2021.
- The effective date for GASB Statement No. 89 has been postponed from reporting periods beginning after December 15, 2019 to reporting periods beginning after December 15, 2020.
- The effective date for GASB Statement No. 90 has been postponed from reporting periods beginning after December 15, 2018 to reporting period s beginning after December 15, 2019.
- The effective date for GASB Statement No. 91 has been postponed from reporting periods beginning after December 15, 2020 to reporting periods beginning after December 15, 2021.
- The effective date for GASB Statement No. 92 has been postponed from reporting periods beginning after June 15, 2020 to reporting periods beginning after June 15, 2021.

New Pending Accounting Pronouncements

GASB Statement No. 87 – In June 2017, GASB issued GASB Statement No. 87 – *Leases.* The objective of this Statement is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. In accordance with GASB Statement No. 95, the Statement is effective for reporting periods beginning after June 15, 2021. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

GASB Statement No. 89 – In June 2018, GASB issued GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objective of this Statement is to enhance the relevance and comparability of information about the capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. In accordance with GASB Statement No. 95, the Statement is effective for reporting periods beginning after December 15, 2020. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

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. In accordance with GASB Statement No. 95, the Statement is effective for reporting periods beginning after December 15, 2021.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

New Pending Accounting Pronouncements (Continued)

GASB Statement No. 92 – In January 2020, the Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 92 – *Omnibus 2020.* The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of GASB Statement No. 87, *Leases* to be effective for *fiscal years* beginning after December 15, 2019 and is effective for all reporting periods thereafter;
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB);
- The applicability of GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* as amended, and No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans,* as amended, to reporting assets accumulated for postemployment benefits;
- The applicability of certain requirements of GASB Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements;
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition;
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers;
- Reference to nonrecurring fair value measurements of assets and liabilities in authoritative literature;
- Terminology used to refer to derivative instruments.

The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance;
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021, in accordance with GASB Statement No. 95;
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021, in accordance with GASB Statement No. 95;
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021, in accordance with GASB Statement No. 95.

Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

Building	5 to 50 years
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.

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.

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 2019 financial statements to conform to the 2020 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:

	2020	2019
SNF Patient Revenue	$ 202,484,477	$ 188,518,554
Other Revenue	22,555,089	13,317,896
Supplemental Payments	16,366,018	11,251,242
Gross Nursing Home Patient Service Revenue	241,405,584	213,087,692
Provision for Bad Debts	(5,894,714)	(3,209,171)
Net Nursing Home Patient Service Revenue	$ 235,510,870	$ 209,878,521

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

At December 31, 2020 and 2019, the carrying amount of the District's deposits with financial institutions was $10,434,683 and $7,397,900, respectively, and the bank balance was $10,554,762 and $7,421,928, respectively.

	2020	2019
Amount insured by the FDIC	$ 1,359,405	$ 1,086,048
Amount collateralized with securities held by the pledging financial institution's trust department in the District's name	15,142,411	9,468,714
Total bank balance	$ 16,501,816	$ 10,554,762

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, 2020 and 2019, the carrying amount of the District's deposits with financial institutions was $690,359 and $687,082, 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, 2020 and 2019, 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.

Concentration of Credit Risk – The District places no limit on the amount that may be invested in any one issuer. At December 31, 2020 and 2019, the investment in state investment pools was approximately 4.0% and 6.2% of total cash and cash equivalents and short-term investments 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:

	2020	2019
Medicare	30%	15%
Medicaid	16%	25%
Managed Care	42%	44%
Patients	12%	16%
Total	100%	100%

NOTE 6 – SALES TAX RECEIVABLE

Sales taxes are reported as revenues in the period for which they are collected. Tax revenue for 2020 and 2019 was $645,787 and $768,179, respectively. As of December 31, 2020 and 2019, the balance of sales tax receivable and its related allowance for uncollectible taxes are as follows:

	2020	2019
Taxes Receivable	$ 111,050	142,755

NOTE 7 – CAPITAL ASSETS

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

	Balance 12/31/19	Additions	Reclass/ Retirements	Balance 12/31/20
Building and improvements	-	107,783	21,700	129,483
Equipment	$ 140,655	$ -	$ -	$ 140,655
Construction in progress	21,700	-	(21,700)	-
Totals at Historical Cost	162,355	107,783	-	270,138
Less Accumulated Depreciation for:				
Building and improvements	-	(3,021)	-	(3,021)
Equipment	(140,655)	-	-	(140,655)
Total Accumulated Depreciation	(140,655)	(3,021)	-	(143,676)
Capital Assets, Net	$ 21,700	$ 104,762	$ -	$ 126,462

	Balance 12/31/18	Additions	Reclass/ Retirements	Balance 12/31/19
Equipment	$ 140,655	$ -	$ -	$ 140,655
Construction in progress	-	21,700	-	21,700
Totals at Historical Cost	140,655	21,700	-	162,355
Less Accumulated Depreciation for:				
Equipment	(140,655)	-	-	(140,655)
Total Accumulated Depreciation	(140,655)	-	-	(140,655)
Capital Assets, Net	$ -	$ 21,700	$ -	$ 21,700

NOTE 8 – NOTES PAYABLE

Following is a summary of notes payable at December 31:

	Balance 12/31/19	Additions	Reductions	Balance 12/31/20
(15) Salt Creek Capital	$ 7,113,078	$ -	$ (7,113,078)	$ -
(16) Salt Creek Capital	5,067,702	-	(5,067,702)	-
(17) Salt Creek Capital	-	6,042,713	-	6,042,713
(17a) Salt Creek Capital	-	6,042,713	-	6,042,713
(18) Salt Creek Capital	-	5,609,296	-	5,609,296
(2) Allegiance Bank	2,000,000	-	(2,000,000)	-
(2b) Allegiance Bank	-	5,609,295	-	5,609,295
Total Notes Payable	$ 14,180,780	$ 23,304,017	$ (14,180,780)	$ 23,304,017

	Balance 12/31/18	Additions	Reductions	Balance 12/31/19
(13) Salt Creek Capital	$ 6,342,432	$ -	$ (6,342,432)	$ -
(14) Salt Creek Capital	4,342,433	-	(4,342,433)	-
(15) Salt Creek Capital	-	7,113,078	-	7,113,078
(16) Salt Creek Capital	-	5,067,702	-	5,067,702
(2) Allegiance Bank	2,000,000	-	-	2,000,000
Total Notes Payable	$ 12,684,865	$ 12,180,780	$ (10,684,865)	$ 14,180,780

The terms and due dates of the District's notes payable at December 31, 2020 and 2019 follow:

- (2) Allegiance Bank – 3.5% note payable with all outstanding principal and interest due January 7, 2019. Note payable was transferred from Post Oak Bank to Allegiance bank during 2019 and renewed with a new maturity date of July 7, 2020. Note payable is collateralized by cash and investments.
- (2b) Allegiance Bank – 3.5% note payable with all outstanding principal and interest due July 7, 2020. Note payable was renewed with a new maturity date of November 10, 2021. Note payable is collateralized by cash and investments.
- (15) Salt Creek Capital – 16.8% note payable with all outstanding principal and interest due March 31, 2020 and is collateralized by cash and investments.
- (16) Salt Creek Capital – 16.8% note payable with all outstanding principal and interest due October 1, 2020 and is collateralized by cash and investments.

NOTE 8 – NOTES PAYABLE (CONTINUED)

- (17a) Salt Creek Capital – 16.8% note payable with all outstanding principal and interest due March 31, 2021 and is collateralized by cash and investments
- (17b) Salt Creek Capital – 16.8% note payable with all outstanding principal and interest due March 31, 2021 and is collateralized by cash and investments
- (18) Salt Creek Capital – 16.8% note payable with all outstanding principal and interest due November 1, 2021 and is collateralized by cash and investments

In 2020 and 2019, total interest incurred was $2,018,326 and $1,614,016, 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 $622,402 and $1,673,947 for the year ended December 31, 2020 and 2019, 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. In 2020, the District entered into an operations transfer agreement with an additional nursing home. 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 $24,922,581 and $22,345,502 for the year ended December 31, 2020 and 2019, respectively. Subsequent to December 31, 2020, the District entered into operations transfer agreements with fourteen additional homes.

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. As of December 31, 2020 and 2019, no termination event has occurred.

Under these agreements, the District has paid total service fees of $9,178,043 and $6,277,490, 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, 2020 and 2019.

NOTE 10 – NURSING HOME OPERATIONS (CONTINUED)

In connection with these agreements, the District has recorded all patient revenue and the related accounts receivable. The District recorded $235,510,870 and $209,878,521 in net patient related revenue for the years ended December 31, 2020 and 2019, 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 $221,915,400 and $199,408,758 for the years ended December 31, 2020 and 2019, 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, 2020 and 2019 for these expenses are $32,384,529 and $27,682,833, 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 $8,380,760 and $5,334,452 at December 31, 2020 and 2019, 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 – COVID-19 PROVIDER RELIEF FUNDS

The Coronavirus Aids, Relief, and Economic Security (CARES) Act (P.L. 116-136), THE Paycheck Protection Program (PPP) and Health Care Enhancement Act (P.L. 116-139), and the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act (P.L. 116-123) appropriated funds to reimburse eligible healthcare providers for healthcare related expense or lost revenues attributable to coronavirus. These funds were distributed by the Health Resources and Services Administration (HRSA) through the Provider Relief Fund (PRF) program. The District received relief funds through Phase 1-3 Stimulus payments and targeted distributions such as Rural Distribution, Allocation for Skilled Nursing Facilities (SNFs), Nursing Home Infection Control, and Allocation for Safety Net Hospitals. Recipients of these funds agreed to Terms and Conditions, which require compliance with reporting requirements as specified by the Secretary of Health and Human Services in program instructions. Non-compliance with any terms and conditions is grounds for the Secretary to recoup some or all of the payment made from the Relief Fund.

- **Stimulus Phases 1-3 –** By accepting the Relief Funds, the District must maintain compliance with the Secretary's terms and conditions, including but not limited to, using the Relief Funds to prevent, prepare for, and respond to coronavirus, and shall reimburse the District only for health care related expenses or lost revenues that are attributable to coronavirus. The District received stimulus phases 1-3 in the amount of $3,083,475 for the year ended December 31, 2020.

- **Skilled Nursing Facilities (SNFs) and Nursing Home Infection Control** – The Relief Funds provided to skilled nursing facilities is to help them combat the effects of the pandemic on the nation's vulnerable seniors. The provider relief funds will be used to support nursing homes suffering from significant expensed or lost revenue attributable to COVID-19. Each SNF will receive a fixed distribution of $50,000, plus a distribution of $2,500 per bed to all certified SNFs with six or more certified beds. The Nursing Home must attest they will only use the Provider Relief Fund payments to prevent, prepare for, and respond to coronavirus. The payment shall reimburse for health care related expense or lost revenues that are attributable to coronavirus. The District received skilled nursing facilities funds in amount of $16,032,403 for the year ended December 31, 2020.

In accordance with the Department of Health and Human Services Post-Payment Notice of Reporting Requirements, the recipients must submit their use of PRF payments by reporting healthcare related expense attributable to coronavirus that another source has not reimbursed then applying actual patient care lost revenues to the remaining funds. If recipients do not expend PRF funds in full by the end of calendar year 2020, they will have an additional six months in which to use remaining amounts toward expenses attributable to coronavirus but not reimbursed by other sources, and /or lost revenues. For the year ended December 31, 2020, the District received $19,115,877 in total COVID-19 provider relief funds, had $9,545,150 expenses attributable to coronavirus not reimbursed by other sources and estimated lost revenues. Additionally, the District recognized revenue of $9,545,150 for the year ended December 31, 2020. The respective revenue is included with nonoperating revenues in accompanying statements of revenues, expenses and changes in net position.

NOTE 14 – SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2020, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosure is January 18, 2022, which is the date on which the financial statements were available to be issued.