

Maverick County Hospital District

Independent Auditor's Report and Financial Statements

August 31, 2020 and 2019

Maverick County Hospital District
August 31, 2020 and 2019

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Independent Auditor's Report

Board of Directors
Maverick County Hospital District
Eagle Pass, Texas

We have audited the accompanying financial statements of Maverick County Hospital District (District), as of and for the years ended August 31, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of August 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.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits 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.

BKD, LLP

Dallas, Texas
January 27, 2021

Maverick County Hospital District

Management's Discussion and Analysis

Years Ended August 31, 2020 and 2019

Introduction

This management's discussion and analysis of the financial performance of Maverick County Hospital District (District) provides an overview of the District's financial activities for the years ended August 31, 2020 and 2019. It should be read in conjunction with the accompanying financial statements of the District.

Financial Highlights

- Cash and investments decreased in 2020 by \$756,505, or 5.2%, and decreased by \$1,850,444, or 11.3% in 2019.
- The District's net position decreased in 2020 by \$2,250,397, or 10.1%, and decreased in 2019 by \$1,412,640, or 6.0%.
- The District reported an operating loss in 2020 of \$5,198,070 and an operating loss in 2019 of \$5,359,016. The operating loss decreased in 2020 by \$160,946 or 3.0%.
- Net nonoperating revenues decreased by \$998,703, or 25.3%, in 2020 compared to 2019 and increased by \$749,669, or 23.5%, in 2019 compared to 2018.

Using This Annual Report

The District's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the District, including resources held by the District but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The District is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

One of the most important questions asked about any District's finances is "Is the District as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, all liabilities and all deferred inflows and outflows of resources using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in it. The District's total net position—the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the District's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients, and local economic factors should also be considered to assess the overall financial health of the District.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments, and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for, and what was the change in cash and cash equivalents during the reporting period.

The District's Net Position

A summary of the District's balance sheets are presenting in the following table:

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

	2020	2019	2018
Assets			
Cash and cash equivalents	\$ 10,762,324	\$ 2,400,668	\$ 2,106,578
Investments	2,963,703	12,081,864	14,226,398
Receivables and other assets, net	2,071,727	2,047,883	2,092,943
Capital assets, net	5,445,944	5,652,013	4,921,419
Net pension asset	773,661	390,779	874,007
Total assets	22,017,359	22,573,207	24,221,345
Deferred Outflows of Resources - Pensions	297,342	603,392	154,751
Total assets and deferred outflows of resources	<u>\$ 22,314,701</u>	<u>\$ 23,176,599</u>	<u>\$ 24,376,096</u>
Liabilities and Long-term Debt	<u>\$ 2,166,470</u>	<u>\$ 873,762</u>	<u>\$ 616,293</u>
Deferred Inflows of Resources - Pensions	181,836	86,045	130,371
Net Position			
Net investment in capital assets	5,438,601	5,612,570	4,821,955
Restricted for pension	773,661	390,779	874,007
Unrestricted	13,754,133	16,213,443	17,933,470
Total net position	19,966,395	22,216,792	23,629,432
Total liabilities, deferred inflows of resources and net position	<u>\$ 22,314,701</u>	<u>\$ 23,176,599</u>	<u>\$ 24,376,096</u>

A significant change in the District's assets in 2020 as compared to 2019, is the decrease in cash and investments of \$756,505, or 5.2%. The decrease is primarily a result of investments maturing during the year and being used for operating purposes and to fund capital improvements.

Operating Results and Changes in the District's Net Position

The following table presents a summary of the District's revenues and expenses for each of the years ended August 31, 2020, 2019 and 2018.

Table 2: Operating Results and Changes in Net Position

	2020	2019	2018
Operating Revenues			
Net patient service revenue	\$ 6,056,492	\$ 4,511,099	2,866,358
Other	1,032,226	1,063,081	1,097,827
Total operating revenues	<u>7,088,718</u>	<u>5,574,180</u>	<u>3,964,185</u>
Operating Expenses			
Salaries and wages and employee benefits	7,609,878	7,192,211	4,920,964
Purchased services and professional fees	1,113,834	954,591	791,421
Depreciation and amortization	310,686	287,135	257,688
Supplies and other	3,252,390	2,499,259	1,959,870
Total operating expenses	<u>12,286,788</u>	<u>10,933,196</u>	<u>7,929,943</u>
Operating Loss	<u>(5,198,070)</u>	<u>(5,359,016)</u>	<u>(3,965,758)</u>
Nonoperating Revenues (Expenses)			
Property taxes	4,448,240	3,656,976	3,429,878
Investment return	272,931	531,940	10,603
Noncapital grants	666,584	760,218	688,667
Tobacco settlement	183,063	168,813	127,012
Indigent care and Medicaid waiver payments	<u>(2,623,145)</u>	<u>(1,171,571)</u>	<u>(1,059,453)</u>
Total nonoperating revenues, net	<u>2,947,673</u>	<u>3,946,376</u>	<u>3,196,707</u>
Decrease in Net Position	<u>\$ (2,250,397)</u>	<u>\$ (1,412,640)</u>	<u>(769,051)</u>

Operating Losses

The first component of the overall change in the District's net position is its operating income or loss—the difference between operating revenues and the expenses incurred to perform those services. In 2020, 2019 and 2018, the District reported operating losses. This is consistent with the District's recent operating history as the District was formed and is operated primarily to support health care for low income residents in Maverick County. The District levies property taxes to provide sufficient resources to support that mission.

The operating loss for 2020 decreased by \$160,946, or 3.0%, as compared to the operating loss in 2019. The primary component of the change in the operating loss in 2020 loss is the increase in operating revenues of \$1,514,538, or 27.2%, which is primarily attributable to the District expanding service lines related to primary care services in December 2018, as well as hiring a cardiologist in September 2018, thereby having a full year of operations in fiscal year 2020. Another component of the decrease in

operating loss in 2020 is that operating expenses increased by \$1,353,592 from 2019 to 2020, primarily as a result of increases in salaries, wages and employee benefits and supplies and other. The increases are attributable to the increase in service lines as previously noted.

The operating loss for 2019 increased by \$1,393,258, or 35.1%, as compared to the operating loss in 2018.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the District, investment income, noncapital grants, and indigent care and Medicaid waiver related payments. Total nonoperating revenues and expenses decreased by \$998,703, or 25.3%, between 2019 and 2020. The decrease was primarily due to an increase in indigent care and Medicaid Waiver payments made, which increased by \$1,451,574. This increase in nonoperating expenses was offset by an increase in property tax revenue of \$791,264 from 2019 to 2020.

Total nonoperating revenues and expenses increased by \$749,669, or 23.5%, between 2018 and 2019. The increase was primarily due to an increase in property tax revenue of approximately \$227,000 due to an increase in the tax rate property values. Investment return also increased by \$521,337 as a result of market performance.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses for 2020, 2019 and 2018 discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At August 31, 2020, the District had \$5,445,944 invested in capital assets, net of accumulated depreciation. In 2020, the District added capital assets costing approximately \$105,000.

At August 31, 2019, the District had \$5,652,013 invested in capital assets, net of accumulated depreciation. In 2019, the District purchased new equipment costing approximately \$1,018,000.

Debt

At August 31, 2020 and 2019, the District had \$868,943 and \$39,443, respectively, in capital lease obligations and notes payable outstanding. During May 2020, the District obtained a loan under the paycheck protection program as detailed in *Notes 9* and *10*.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Maverick County Hospital District at 3406 Bob Rogers Drive, Suite 230, Eagle Pass, TX 78852.

Maverick County Hospital District
Balance Sheets
August 31, 2020 and 2019

Assets and Deferred Outflows of Resources

	<u>2020</u>	<u>2019</u>
Current Assets		
Cash and cash equivalents	\$ 10,762,324	\$ 2,400,668
Short-term investments	1,148,600	4,391,437
Patient accounts receivable, net of allowance; 2020—\$1,039,000, 2019—\$1,160,000	639,657	601,208
Property taxes receivable, net of allowance; 2020 and 2019 - \$526,000	492,991	390,244
Other receivables, net of allowance; 2020—\$577,000, 2019—\$532,000	794,428	908,163
Prepaid expenses and other	<u>117,651</u>	<u>109,268</u>
Total current assets	<u>13,955,651</u>	<u>8,800,988</u>
Noncurrent Cash and Investments	1,815,103	7,690,427
Capital Assets, Net	5,445,944	5,652,013
Other Assets	27,000	39,000
Net Pension Asset	<u>773,661</u>	<u>390,779</u>
Total assets	<u>22,017,359</u>	<u>22,573,207</u>
Deferred Outflows of Resources - Pensions	<u>297,342</u>	<u>603,392</u>
Total assets and deferred outflows of resources	<u>\$ 22,314,701</u>	<u>\$ 23,176,599</u>

Maverick County Hospital District
Balance Sheets (Continued)
August 31, 2020 and 2019

Liabilities, Deferred Inflows of Resources, and Net Position

	2020	2019
Current Liabilities		
Current maturities of long-term debt	\$ 440,603	\$ 18,442
Accounts payable	362,667	304,007
Accrued salaries, wages and compensated absences	531,649	530,312
Medicare Advance payments	403,211	-
Total current liabilities	1,738,130	852,761
Long-term debt	428,340	21,001
Total liabilities	2,166,470	873,762
Deferred Inflows of Resources - Pensions	181,836	86,045
Net Position		
Net investment in capital assets	5,438,601	5,612,570
Restricted for pension	773,661	390,779
Unrestricted	13,754,133	16,213,443
Total net position	19,966,395	22,216,792
Total liabilities, deferred inflows of resources, and net position	\$ 22,314,701	\$ 23,176,599

Maverick County Hospital District
Statements of Revenues, Expenses and Changes in Net Position
Years Ended August 31, 2020 and 2019

	2020	2019
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2020—\$292,000, 2019—\$117,000	\$ 6,056,492	\$ 4,511,099
Other	1,032,226	1,063,081
Total operating revenues	7,088,718	5,574,180
Operating Expenses		
Salaries and wages	6,344,081	6,119,028
Employee benefits	1,265,797	1,073,183
Purchased services and professional fees	1,113,834	954,591
Supplies and other	3,147,898	2,405,756
Professional liability insurance expense	104,492	93,503
Depreciation and amortization	310,686	287,135
Total operating expenses	12,286,788	10,933,196
Operating Loss	(5,198,070)	(5,359,016)
Nonoperating Revenues		
Property taxes	4,448,240	3,656,976
Interest income	189,143	286,833
Change in unrealized gain (loss) in fair value of investments	83,788	245,107
Noncapital grants and gifts	666,584	760,218
Tobacco settlement	183,063	168,813
Total nonoperating revenues	5,570,818	5,117,947
Nonoperating Expenses		
Indigent care and Medicaid waiver payments	(2,623,145)	(1,171,571)
Total nonoperating expenses	(2,623,145)	(1,171,571)
Total nonoperating revenues, net	2,947,673	3,946,376
Decrease in Net Position	(2,250,397)	(1,412,640)
Net Position, Beginning of Year	22,216,792	23,629,432
Net Position, End of Year	\$ 19,966,395	\$ 22,216,792

Maverick County Hospital District
Statements of Cash Flows
Years Ended August 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Activities		
Receipts from and on behalf of patients and program participants	\$ 6,255,783	\$ 4,025,866
Payments to suppliers	(4,315,947)	(3,224,924)
Payments to employees	(7,577,582)	(7,106,722)
Other receipts, net	<u>958,669</u>	<u>1,319,651</u>
Net cash used in operating activities	<u>(4,679,077)</u>	<u>(4,986,129)</u>
Noncapital Financing Activities		
Proceeds received from issuance of paycheck protection program loan	861,600	-
Property taxes supporting operations	4,345,493	3,633,296
Proceeds received from tobacco settlement	183,063	168,813
Noncapital grants and gifts	677,405	782,526
Medicaid waiver program payments	<u>(2,325,694)</u>	<u>(917,362)</u>
Net cash provided by noncapital financing activities	<u>3,741,867</u>	<u>3,667,273</u>
Capital and Related Financing Activities		
Principal paid on long-term debt	(32,100)	(6,689)
Purchase of capital assets	<u>(104,617)</u>	<u>(1,071,061)</u>
Net cash used in capital and related financing activities	<u>(136,717)</u>	<u>(1,077,750)</u>
Investing Activities		
Investment income	317,422	546,162
Purchase of investments	(324,128)	(1,855,466)
Proceeds from sale of investments	<u>9,442,289</u>	<u>4,000,000</u>
Net cash provided by investing activities	<u>9,435,583</u>	<u>2,690,696</u>
Increase in Cash and Cash Equivalents	8,361,656	294,090
Cash and Cash Equivalents, Beginning of Year	<u>2,400,668</u>	<u>2,106,578</u>
Cash and Cash Equivalents, End of Year	<u>\$ 10,762,324</u>	<u>\$ 2,400,668</u>

Maverick County Hospital District
Statements of Cash Flows (Continued)
Years Ended August 31, 2020 and 2019

	2020	2019
Reconciliation of Operating Loss to Net Cash		
Used in Operating Activities		
Operating loss	\$ (5,198,070)	\$ (5,359,016)
Depreciation and amortization	310,686	287,135
Provision for uncollectible accounts	292,294	117,114
Changes in operating assets and liabilities		
Patient accounts receivable and other, net	(569,771)	(345,777)
Accounts payable and accrued expenses	59,997	317,490
Medicare Advance payments	403,211	-
Net pension asset	(382,882)	483,228
Deferred outflows of resources - pensions	306,050	(448,641)
Deferred inflows of resources - pensions	95,791	(44,326)
Other assets and liabilities	3,617	6,664
Net cash used in operating activities	\$ (4,679,077)	\$ (4,986,129)

Maverick County Hospital District

Notes to Financial Statements

August 31, 2020 and 2019

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Maverick County Hospital District is a political subdivision of the state of Texas. The District is controlled by a five-member board of governors elected by the public. The purpose of the District is to provide medical services to residents of Maverick County through support of indigent care programs by area medical care providers and to provide educational services through direct community involvement. The District also recruits physicians of various specialties to Maverick County in an effort to expand the range of medical services in Maverick County.

Basis of Accounting and Presentation

The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities, and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, property taxes and investment income are included in nonoperating revenues and expenses. The District first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

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

Cash Equivalents

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At August 31, 2020 and 2019, cash equivalents consisted of investments in public fund investment pools that included funds used for operations.

Property Taxes

The District received approximately 35% in 2020 and 34% in 2019 of its financial support from property taxes. These funds were used to support operations.

Maverick County Hospital District
Notes to Financial Statements
August 31, 2020 and 2019

Property taxes are levied by the District on October 1 of each year based on the preceding January 1 assessed property values. To secure payment, an enforceable lien attaches to the property on January 1, when the value is assessed. Property taxes become due and payable when levied on October 1. This is the date on which an enforceable legal claim arises, and the District records a receivable for the property tax assessment, less an allowance for uncollectible taxes. Property taxes are considered delinquent after January 31 of the following year.

The District's property tax rate was \$.1490 per \$100 valuation for both years ending August 31, 2020 and 2019, respectively. Property tax revenue totaled \$4,448,240 and \$3,656,976 for 2020 and 2019, respectively.

Risk Management

The District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice claims. Settled claims have not exceeded this commercial coverage in any of the three preceding periods.

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in non-negotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the District:

Land improvements	7-15 years
Buildings and improvements	25-40 years
Equipment	3-10 years

Maverick County Hospital District
Notes to Financial Statements
August 31, 2020 and 2019

Defined Benefit Pension Plan

The District provides pension benefits to its employees through an agent multiple-employer defined benefit pension plan operated by the Texas County and District Retirement System (Plan). For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows of Resources

The District reports increases in net position that relate to future periods as deferred outflows of resources in a separate section of its statements of net position.

Deferred Inflows of Resources

The District reports decreases in net position that relate to future periods as deferred inflows of resources in a separate section of its statements of net position.

Compensated Absences

District policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits when earned whether the employee is expected to realize the benefit as time off or in cash. Sick leave benefits expected to be realized as paid time off are recognized as expenses when the time off occurs and no liability is accrued for such benefits employees have earned, but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position of the District is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted for pension represents assets restricted for providing contributions to the agent multiple-employer defined benefit pension plan which provides pensions in accordance with the benefit terms of the plan. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Maverick County Hospital District
Notes to Financial Statements
August 31, 2020 and 2019

Net Patient Service Revenue

Net patient service revenue is derived from services of physicians employed by the District. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, and include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods, as adjustments become known. The District's physician group provided approximately \$297,000 and \$254,000 in indigent care to participants in the District's indigent care program in 2020 and 2019, respectively.

Net patient service revenue also includes revenue from the collection of coinsurance or cost-sharing payments from individuals who receive medical care under the District's indigent care program. These payments are based on a sliding scale of federal poverty guidelines.

Income Taxes

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

Note 2: Indigent Care

As discussed in *Note 1*, the primary purpose of the District is to provide medical services to residents of Maverick County. This is done through support of indigent care programs at area medical providers. As part of its mission of providing indigent care to citizens of Maverick County, the District participates in the Medicaid Section 1115(a) Waiver program; a program designed to benefit hospitals that service low income and indigent patients. As part of the program, certain governmental entities, including hospital districts, advance funds which are matched with federal funding. Based on specific requirements, all funds are then disbursed to providers throughout Texas. In connection with this program, the District transferred funds in the amount of \$2,325,694 and \$917,362 for the years ended August 31, 2020 and 2019, respectively.

Maverick County Hospital District
Notes to Financial Statements
August 31, 2020 and 2019

Note 3: Deposits and Investment Income

Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance or other qualified investments. At August 31, 2020 and 2019, the District's deposits were either insured or collateralized in accordance with state law.

Investments

The District may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities, and in bank repurchase agreements.

At August 31, 2020 and 2019, the District had the following investments and maturities:

<u>Type</u>	<u>August 31, 2020</u>		
	<u>Fair Value</u>	<u>Maturities in Years</u>	
		<u>Less than 1</u>	<u>1-5</u>
U.S. agencies obligations	\$ 503,775	\$ 503,775	\$ -
Certificates of deposit	2,459,928	644,825	1,815,103
Texas Class Investment Pool	9,898,395	9,898,395	-
	<u>\$ 12,862,098</u>	<u>\$ 11,046,995</u>	<u>\$ 1,815,103</u>
<u>Type</u>	<u>August 31, 2019</u>		
	<u>Fair Value</u>	<u>Maturities in Years</u>	
		<u>Less than 1</u>	<u>1-5</u>
U.S. agencies obligations	\$ 6,201,647	\$ 997,485	\$ 5,204,162
Municipal bonds	1,453,346	1,453,346	-
Mutual funds	510,313	510,313	-
Certificates of deposit	3,916,558	1,430,293	2,486,265
Texas Class Investment Pool	846,234	846,234	-
	<u>\$ 12,928,098</u>	<u>\$ 5,237,671</u>	<u>\$ 7,690,427</u>

Maverick County Hospital District

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Interest Rate Risk – As a means of limiting its exposure to fair value losses arising from rising interest rates, the District’s investment policy requires that total investments have a weighted-average maturity of five years or less. The District’s investments in U.S. agency obligations include fixed-rate notes and bonds with a weighted average maturity of three years.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the District’s policy to limit its investments to U.S. Treasury and agency obligations or otherwise follow the restrictions of the *Texas Public Funds Investment Act*. The debt securities of the U.S. agencies are rated AA+ by Standard & Poor’s rating agency at August 31, 2020 and 2019. The District’s investments in municipal bonds were rated AA or AAA by Standard & Poor’s rating agency at August 31, 2019. The District did not have any municipal bonds at August 31, 2020.

The District also utilizes a pooled investment concept for its funds to maximize its investment program by investing in TexCLASS, which is an investment pool authorized by the Texas Legislature. The Texas Treasury Safekeeping Trust Company is the trustee and is a limited purpose trust company authorized pursuant to Texas Government Code. The pool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in the pools is the same as the value of the pools shares.

The District also invests in certificates of deposit, which are classified as investments for financial reporting purposes. These certificates of deposit are fully collateralized by the various financial institutions.

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. All of the District’s investments are held in safekeeping or trust accounts.

Concentration of Credit Risk – As a means of limiting the risk of loss resulting from over concentration of assets in any one issuer, it is the District’s policy to diversify investment holdings to provide for stability of income and reasonable liquidity.

Maverick County Hospital District
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The following table reflects the District's investments in single issuers that represent more than 5% of total investments at August 31, 2020 and 2019.

	<u>2020</u>	<u>2019</u>
Federal Farm Credit Bank	21%	21%
Federal Home Loan Bank	0%	20%
Federal National Mortgage Association	0%	8%
Harris County Texas	6%	6%
Capital One Bank	6%	6%
Morgan Stanley Bank	18%	6%
Wells Fargo Bank	8%	2%
Hilltop Securities	8%	0%
Discover Bank	8%	2%
Barclays Bank	5%	1%

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	<u>2020</u>	<u>2019</u>
Carrying value		
Deposits	\$ 863,929	\$ 1,554,434
Investments	<u>12,862,098</u>	<u>12,928,098</u>
	<u>\$ 13,726,027</u>	<u>\$ 14,482,532</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 10,762,324	\$ 2,400,668
Short-term investments	1,148,600	4,391,437
Noncurrent cash and investments	<u>1,815,103</u>	<u>7,690,427</u>
	<u>\$ 13,726,027</u>	<u>\$ 14,482,532</u>

Maverick County Hospital District
Notes to Financial Statements
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Note 4: Capital Assets

Capital assets activity for the years ended August 31, was:

	2020				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land and land improvements	\$ 936,354	\$ 29,176	\$ -	\$ -	\$ 965,530
Buildings and improvements	7,607,234	31,624	-	-	7,638,858
Equipment	2,119,164	43,817	-	-	2,162,981
	<u>10,662,752</u>	<u>104,617</u>	<u>-</u>	<u>-</u>	<u>10,767,369</u>
Less accumulated depreciation:					
Land improvements	108,179	38,423	-	2,489	149,091
Buildings and improvements	3,327,961	139,197	-	(2,489)	3,464,669
Equipment	1,574,599	133,066	-	-	1,707,665
	<u>5,010,739</u>	<u>310,686</u>	<u>-</u>	<u>-</u>	<u>5,321,425</u>
Capital assets, net	<u>\$ 5,652,013</u>	<u>\$ (206,069)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,445,944</u>
	2019				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land and land improvements	\$ 351,187	\$ 585,167	\$ -	\$ -	\$ 936,354
Buildings and improvements	7,168,965	38,445	-	399,824	7,607,234
Equipment	1,725,047	394,117	-	-	2,119,164
Construction in progress	399,824	-	-	(399,824)	-
	<u>9,645,023</u>	<u>1,017,729</u>	<u>-</u>	<u>-</u>	<u>10,662,752</u>
Less accumulated depreciation:					
Land improvements	78,306	29,873	-	-	108,179
Buildings and improvements	3,186,201	141,760	-	-	3,327,961
Equipment	1,459,097	115,502	-	-	1,574,599
	<u>4,723,604</u>	<u>287,135</u>	<u>-</u>	<u>-</u>	<u>5,010,739</u>
Capital assets, net	<u>\$ 4,921,419</u>	<u>\$ 730,594</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,652,013</u>

Maverick County Hospital District
Notes to Financial Statements
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Note 5: Risk Management

General Liability Risks

The District participates in the Texas Municipal League Intergovernmental Risk Pool (Pool), currently operating as a common risk management and insurance program for its members. The District pays an annual premium to the Pool for its general liability torts insurance coverage. The Pool's governing agreement specifies that the Pool will be self-sustaining through member premiums.

Medical Malpractice Risks

The District is a unit of government covered by the Texas Tort Claims Acts (TTCA) which, by statute, limits its malpractice liability to \$100,000 per person and \$300,000 per occurrence. The District was self-insured for medical malpractice risks until June 30, 2011, at which time, the District was insured by a third party, up to the limits established by the TTCA. To cover such risks, the District purchases medical malpractice insurance under an occurrence-basis 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. It is reasonably possible that this estimate could change materially in the near term.

Litigation

The District is subject to claims and lawsuits that arose primarily in the ordinary course of its activities. Some of these allegations are in areas not covered by the District's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The District evaluates such allegations by conducting investigations to determine the validity of each potential claim. It is the opinion of management the disposition or ultimate resolution of such claims and lawsuits will not have a material adverse effect on the balance sheets, change in net position and cash flows of the District. Events could occur that would change this estimate materially in the near term.

Maverick County Hospital District
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Note 6: Operating Leases

The District leases office space in its medical office building to unrelated parties. All of the District's existing leases are cancellable with 30 days prior written notice. Rental income was approximately \$212,000 and \$228,000 for 2020 and 2019, respectively, and is recognized as a component of other operating revenue in the statements of revenues, expenses and changes in net position.

Note 7: Pension Plans

Defined Contribution Plan Description

The District offers a defined contribution plan covering substantially all employees. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the District's governing body. Contributions made by plan members were approximately \$48,000 and \$51,000 during 2020 and 2019, respectively. The District does not make contributions to the plan. Employees are immediately vested in their own contributions and earnings on those contributions.

Defined Benefit Plan Description

The District contributes to the Texas County and District Retirement System (TCDRS), an agent multiple-employer defined benefit pension plan covering substantially all employees. The Plan is administered by a board of trustees appointed by TCERS. Benefit provisions are contained in the plan document and were established and can be amended by action of the District's governing body within the options available in the state statutes governing TCERS. The Plan does not issue a separate report that includes financial statements and required supplementary information for the plan. TCERS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCERS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034 or from the website www.tcers.org.

Benefits Provided

The Plan provides retirement, disability and survivor benefits to plan members and their beneficiaries. Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the District within the actuarial constraints imposed by the TCERS Act so that the resulting benefits can be expected to be adequately financed by the commitment of the District to contribute to the plan. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCERS.

Maverick County Hospital District
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Members can retire at ages 60 and above with eight or more years of service or with 30 years regardless of age, or when the sum of their age and years of service equals 75 or more. A member is vested after eight years but must leave his accumulated contributions in the Plan to receive any employer-financed benefit. If a member withdraws his personal contributions in a lump sum, he is not entitled to any amounts contributed by the employer.

The Plan has been adopted in lieu of the normal requirement that employers contribute to the social security program (other than for the Medicare portion).

The employees covered by the Plan at December 31 (measurement date) are:

	2020	2019
Inactive employees or beneficiaries currently receiving benefits	6	5
Inactive employees entitled to but not yet receiving benefits	55	48
Active employees	87	81
	148	134

Contributions

The District’s governing body has the authority to establish and amend the contribution requirements of the District and active employees.

The District establishes rates based on the annually determined rate plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both the employee members and the employer based on the covered payroll of employee members. Plan members are required to contribute 6% of their annually covered salary. Under the TCDRS Act, rates are based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended August 31, 2020, employees contributed \$296,052, or 5.2% of annual pay and the District contributed \$293,031, or 5.1% of annual pay. For the year ended August 31, 2019, employees contributed \$291,581, or 5.0% of annual pay, and the District contributed \$259,017, or 4.9% of annual pay, to the Plan.

Net Pension Asset

The District’s net pension asset as of August 31, 2020 and 2019, was measured as of December 31, 2019 and 2018, respectively, and the total pension liability used to calculate the net pension asset was determined by actuarial valuations as of these dates.

Maverick County Hospital District
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The total pension liability in the August 31, 2020 and 2019 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary increases	4.9% average over career, including inflation
Ad hoc cost of living adjustments	Not included
Investment rate of return	8.0%, net of pension plan administrative expenses

Mortality rates for depositing members were based on the RP-2014 Active Employee Mortality Table with a 110% for females and 130% for males, both projected with 110% of the MP-2014 Ultimate scale after that.

The actuarial assumptions used in the December 31, 2019 and 2018 valuations were based on the results of an actuarial experience study for the period January 1, 2013 through December 31, 2016.

The long-term expected rate of return on pension plan investments was based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information. The target allocation and best estimates of geometric rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Equities		
U.S. Equities	14.5%	5.2%
International Equities — Developed	7.0%	5.2%
International Equities — Emerging	7.0%	5.7%
Global Equities	2.5%	5.5%
Hedge Funds	8.0%	2.3%
High-Yield Investments		
Strategic Credit	12.0%	3.1%
Distressed Debt	4.0%	6.9%
Direct Lending	11.0%	7.2%
Private Equity	20.0%	8.2%
Real Assets		
REITs	3.0%	4.5%
Private Real Estate Partnerships	6.0%	5.5%
Master Limited Partnerships	2.0%	8.4%
Investment-Grade Bonds	3.0%	-0.2%
Total	100%	

Maverick County Hospital District
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Discount Rate

The discount rate used to measure the total pension liability was 8.1% at December 31, 2019 and 2018. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that District contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the total pension liability, plan fiduciary net position and the net pension asset for the years end August 31, are:

	2020		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balances at beginning of year	\$ 4,544,953	\$ 4,935,732	\$ (390,779)
Changes for the year:			
Service cost	589,246	-	589,246
Interest on total pension liability	411,286	-	411,286
Effect of economic/demographic gains or losses	(8,263)	-	(8,263)
Refund of contributions	(53,458)	(53,458)	-
Benefit payments	(61,982)	(61,982)	-
Administrative expenses	-	(4,721)	4,721
Member contributions	-	292,809	(292,809)
Net investment income	-	810,100	(810,100)
Employer contributions	-	261,088	(261,088)
Other changes	-	15,875	(15,875)
Net changes	876,829	1,259,711	(382,882)
Balances at end of year	\$ 5,421,782	\$ 6,195,443	\$ (773,661)

Maverick County Hospital District
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	2019		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balances at beginning of year	\$ 3,786,849	\$ 4,660,856	\$ (874,007)
Changes for the year:			
Service cost	404,707	-	404,707
Interest on total pension liability	336,832	-	336,832
Effect of economic/demographic gains or losses	84,142	-	84,142
Refund of contributions	(22,659)	(22,659)	-
Benefit payments	(44,918)	(44,918)	-
Administrative expenses	-	(3,964)	3,964
Member contributions	-	223,549	(223,549)
Net investment loss	-	(82,912)	82,912
Employer contributions	-	194,861	(194,861)
Other changes	-	10,919	(10,919)
Net changes	758,104	274,876	483,228
Balances at end of year	\$ 4,544,953	\$ 4,935,732	\$ (390,779)

The District's net pension asset has been calculated using a discount rate of 8.1%. The following table presents the net pension liability (asset) using a discount rate 1% higher and 1% lower than the current rate for August 31:

	2020		
	1% Decrease 7.1%	Current Discount Rate 8.1%	1% Increase 9.1%
District's net pension liability (asset)	\$ 61,319	\$ (773,661)	\$ (1,463,430)

Maverick County Hospital District
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Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended August 31, 2020 and 2019, the District recognized pension expense of approximately \$315,000 and \$246,000, respectively. At August 31, 2020 and 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 60,102	\$ 60,198
Changes of assumptions	8,911	-
Net difference between projected and actual earnings on plan investments	-	121,638
Contributions subsequent to the measurement date	228,329	-
	\$ 297,342	\$ 181,836

	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 72,122	\$ 86,045
Changes of assumptions	15,492	-
Net difference between projected and actual earnings on plan investments	322,068	-
Contributions subsequent to the measurement date	193,710	-
	\$ 603,392	\$ 86,045

Maverick County Hospital District
Notes to Financial Statements
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At August 31, 2020 and 2019, the District reported \$228,329 as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date that will be recognized as an increase of the net pension asset at August 31, 2021. Other amounts reported as deferred outflows of resources and deferred inflows of resources at August 31, 2020, related to pensions will be recognized in pension expense as follows:

Year ending August 31:

2021		\$	(42,478)
2022			(31,153)
2023			18,800
2024			(67,651)
2025			10,842
Thereafter			(1,183)
			\$ (112,823)

Pension Plan Fiduciary Net Position

Detailed information about the Plan’s fiduciary net position is available in the separately issued financial report of TCDRS for the year ended December 31, 2019.

Note 8: Disclosure About Fair Value of Assets

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs.

There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Maverick County Hospital District
Notes to Financial Statements
August 31, 2020 and 2019

Recurring Measurements

The following table presents the fair value measurements of assets and liabilities recognized in the accompanying financial statements measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at August 31, 2020 and 2019:

	Carrying Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
August 31, 2020				
Investments by fair value level				
U.S. agency obligations	\$ 503,775	\$ -	\$ 503,775	\$ -
Total investments by fair value level	503,775	\$ -	\$ 503,775	\$ -
Investments measured at net asset value				
Texas Class Investment Pool	9,898,395			
Certificates of deposit				
	2,459,928			
Total investments	\$ 12,862,098			

	Carrying Amount	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
August 31, 2019				
Investments by fair value level				
U.S. agency obligations	\$ 6,201,647	\$ -	\$ 6,201,647	\$ -
Mutual funds	510,313	510,313	-	-
Municipal bonds	1,453,346	-	1,453,346	-
Total investments by fair value level	8,165,306	\$ 510,313	\$ 7,654,993	\$ -
Investments measured at net asset value				
Texas Class Investment Pool	846,234			
Certificates of deposit				
	3,916,558			
Total investments	\$ 12,928,098			

Maverick County Hospital District

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Certain investments that are measured using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above approximate net asset value for all related external investment pool balances.

Investments

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. At August 31, 2020 and 2019, no investments were held by the District meeting the Level 3 hierarchy classification.

Investment in State Investment Pool – During 2020 and 2019, the District invested in Texas CLASS, a public fund investment pool. Investments in the pool are not categorized in accordance with GASB Statement No. 3 disclosure requirements since the District has not been issued certificates, but rather it owns an individual beneficial interest in the net position of the related investment pool. The fair value of the position of the pool is measured at net asset value and is designed to approximate the share value. The pool's governing body is comprised of individuals who are employees, officers, or elected officials of participants in the funds or who do not have a business relationship with the fund and are qualified to advise. Investment objective and strategies of the pools are to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. Pools offer same day access to investment funds.

Maverick County Hospital District
Notes to Financial Statements
August 31, 2020 and 2019

Note 9: Long-Term Obligations

The following is a summary of long-term obligation transactions for the District for the years ended August 31, 2020 and 2019:

	2020				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Capital lease obligations	\$ 39,443	\$ -	\$ (32,100)	\$ 7,343	\$ 4,059
PPP Loan	-	861,600	-	861,600	436,544
Total long-term debt	\$ 39,443	\$ 861,600	\$ (32,100)	\$ 868,943	\$ 440,603
	2019				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Capital lease obligations	\$ 46,132	\$ -	\$ (6,689)	\$ 39,443	\$ 18,442

Capital Lease Liabilities

The District has entered into capital lease agreements for medical equipment. The lease obligations are secured by the equipment.

Paycheck Protection Program Loan

During May 2020, the District obtained a loan under the paycheck protection program (PPP). Monthly principal and interest payments at 1.00%, totaling \$48,505 are due beginning December 7, 2020 through May 7, 2022, at which point the balance is due in full. The District applied for forgiveness of the PPP loan subsequent to year-end. In the event the loan is not forgiven, the debt service requirements as of August 31, 2020 are such that \$436,544 is due in 2021 and the remainder is due in 2022.

Maverick County Hospital District

Notes to Financial Statements

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Note 10: COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

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

The District's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The District has taken precautionary steps to enhance its operational and financial flexibility and react to the risks the COVID-19 pandemic presents to its business, including implementation of targeted cost reduction initiatives and reduction of certain planned projects and capital expenditures.

In addition, the District received approximately \$403,000 of accelerated Medicare payments and approximately \$118,000 in general and targeted Provider Relief Fund distributions, both as provided for under the *Coronavirus Aid, Relief, and Economic Security (CARES) Act*.

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

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

Provider Relief Fund

During the year ended August 31, 2020, the District received approximately \$118,000 of distributions from the CARES Act Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the District is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services (HHS).

Maverick County Hospital District

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Subsequent to year-end, the District received an additional \$64,000 in Provider Relief Fund distributions.

The District is accounting for such payments as conditional contributions. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the District's operating revenues and expenses through August 31, 2020, the District recognized \$118,000, related to the Provider Relief Fund, and these payments are recorded as nonoperating revenue – noncapital grants and gifts in the statement of revenues, expenses and changes in net position.

Subsequent to year-end, HHS issued guidance on the use of payments from the Provider Relief Fund. The District considers the guidance issued subsequent to year-end to be substantive changes in guidance rather than clarifications of guidance existing at August 31, 2020. As a result, the amounts recorded in the financial statements compared to the District's Provider Relief Fund reporting could differ. This difference cannot be currently estimated but could be material.

The District will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the District's revenues and expenses. The terms and conditions governing the Provider Relief Fund are complex and subject to interpretation and change. If the District is unable to attest to or comply with current or future terms and conditions the District's ability to retain some or all of the distributions received may be affected. Provider Relief Fund payments are subject to government oversight, including potential audits.

Medicare Accelerated and Advanced Payment Program

During the year ended August 31, 2020, the District requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. These amounts are expected to be recaptured by the Centers for Medicare and Medicaid Services (CMS) according to the payback provisions.

During the year ended August 31, 2020, the District received approximately \$403,000 from these accelerated Medicare payment requests which are reflected as Medicare Advance Payments in the accompanying balance sheets.

Effective September 30, 2020, the payback provisions were revised and extended the payback period to begin one year after the issuance of the advance payment through a phased payback period approach. The first 11 months of the payback period will be at 25 percent of the remittance advice payment followed by a six-month payback period at 50 percent of the remittance advice payment. After 29 months, CMS expects any amount not paid back through the withhold amounts to be paid back in a lump sum or interest will begin to accrue subsequent to the 29 month at a rate of 4 percent.

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August 31, 2020 and 2019

Paycheck Protection Program Loan

The CARES Act and other subsequent legislation also provides a Small Business Administration (SBA) loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. The PPP loans will be forgiven if all employee retention criteria are met and the funds are used for eligible expenses. The District received a PPP loan of \$861,600 in May 2020. The loan has an interest rate of 1 percent, with monthly payments of \$48,505 due monthly starting six months after the receipt of the loan. The loan, if not forgiven, matures on May 7, 2022.

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

Subsequent to year-end, the District received legal notice that the PPP loan was forgiven in its entirety and recognized the gain from extinguishment in fiscal year 2021.

Note 11: Litigation

In the normal course of business, the District is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the District's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The District evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Maverick County Hospital District
Notes to Financial Statements
August 31, 2020 and 2019

Note 12: Future Change in Accounting Principle

GASB Statement No. 87, Leases

GASB Statement No. 87, *Leases* (GASB 87), provides a new framework for accounting for leases under the principle that leases are financings. Leases will no longer be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly.

GASB 87 is effective for financial statements for the District's fiscal year ending August 31, 2022. Earlier application is encouraged. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun.

GASB 84 – Fiduciary Activities

GASB Statement No. 84, *Fiduciary Activities* (GASB 84), establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. GASB 84 is effective for the District's fiscal year ending August 31, 2021.

Required Supplementary Information

Maverick County Hospital District
Schedule of Changes in the District's Net Pension Asset and Related Ratios
As of December 31,

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total pension liability						
Service cost	\$ 589,246	\$ 404,707	\$ 388,012	\$ 287,349	\$ 307,603	\$ 332,561
Interest on total pension liability	411,286	336,832	290,693	238,238	216,704	182,393
Effect of plan changes	-	-	-	-	(49,031)	-
Effect of assumption changes or inputs	-	-	6,993	-	32,490	-
Effect of economic and demographic gains	(8,263)	84,142	(57,868)	(5,377)	(128,830)	(6,419)
Benefit payments, including refunds of employee contributions	(115,440)	(67,577)	(81,946)	(156,114)	(68,123)	(61,222)
Net change in total pension liability	876,829	758,104	545,884	364,096	310,813	447,313
Total pension liability—beginning	4,544,953	3,786,849	3,240,965	2,876,869	2,566,056	2,118,743
Total pension liability—ending (a)	\$ 5,421,782	\$ 4,544,953	\$ 3,786,849	\$ 3,240,965	\$ 2,876,869	\$ 2,566,056
Plan fiduciary net position						
Contributions—employer	\$ 261,088	\$ 194,861	\$ 134,514	\$ 118,580	\$ 111,235	\$ 88,493
Contributions—employee	292,809	223,549	180,555	152,340	131,899	134,761
Net investment income net of investment expenses	810,100	(82,912)	567,247	257,852	(106,675)	197,186
Benefit payments, including refunds of employee contributions	(115,440)	(67,577)	(81,946)	(156,114)	(68,123)	(61,222)
Administrative expense	(4,721)	(3,964)	(3,100)	(2,803)	(2,482)	(2,482)
Other	15,875	10,919	3,095	26,523	3,644	11,935
Net change in plan fiduciary net position	1,259,711	274,876	800,365	396,378	69,498	368,671
Plan fiduciary net position—beginning	4,935,732	4,660,856	3,860,491	3,464,113	3,394,615	3,025,944
Plan fiduciary net position—ending (b)	\$ 6,195,443	\$ 4,935,732	\$ 4,660,856	\$ 3,860,491	\$ 3,464,113	\$ 3,394,615
District's net pension asset—ending (a) – (b)	\$ (773,661)	\$ (390,779)	\$ (874,007)	\$ (619,526)	\$ (587,244)	\$ (828,559)
Plan fiduciary net position as a percentage of the total pension asset	114.27%	108.60%	123.08%	119.12%	120.41%	132.29%
Covered-employee payroll	\$ 4,880,151	\$ 3,725,823	\$ 3,009,257	\$ 2,536,740	\$ 2,198,316	\$ 2,246,025
District's net pension asset as a percentage of covered-employee payroll	-15.85%	-10.49%	-29.04%	-24.42%	-26.71%	-36.89%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available. Information presented in this schedule has been determined as of the measurement date (December 31) of the net pension asset in accordance with GASB 68.

Maverick County Hospital District
Schedule of District Contributions
Year Ending August 31,

Year Ending August 31,	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered- employee payroll (1)	Contributions as a percentage of covered-employee payroll
2020	\$ 293,031	\$ 293,031	\$ -	\$ 5,724,419	5.1%
2019	\$ 259,017	\$ 259,017	\$ -	\$ 5,800,713	4.5%
2018	\$ 166,164	\$ 166,164	\$ -	\$ 4,013,512	4.1%
2017	\$ 136,249	\$ 136,249	\$ -	\$ 3,253,760	4.2%
2016	\$ 104,205	\$ 104,205	\$ -	\$ 2,571,786	4.1%
2015	\$ 105,356	\$ 105,356	\$ -	\$ 2,465,973	4.3%

Notes to Schedule:

(1) Payroll is calculated based on contributions as reported to TCDRS

Valuation date:

Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal cost
Amortization method	Closed
Remaining amortization period	0.0 years
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	4.9% average over career, including inflation
Investment rate of return	8.0%, net of pension plan investment expense, including inflation
Retirement age	61 (average)
Mortality	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available. Information presented in this schedule has been determined as of the District's fiscal year end (August 31) in accordance with GASB 68.