

Maverick County Hospital District

**Independent Auditor's Report
and Financial Statements**

August 31, 2022 and 2021



Maverick County Hospital District
August 31, 2022 and 2021

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Independent Auditor's Report

Board of Directors
Maverick County Hospital District
Eagle Pass, Texas

Opinion

We have audited the financial statements of Maverick County Hospital District (District), as of and for the years ended August 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the District as of August 31, 2022 and 2021, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, in the fiscal year ended August 31, 2022, the District adopted Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

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.

FORVIS, LLP

**Dallas, Texas
February 28, 2023**

Maverick County Hospital District

Management's Discussion and Analysis

Years Ended August 31, 2022 and 2021

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, 2022 and 2021. It should be read in conjunction with the accompanying financial statements of the District. In addition, the 2020 balances included in this management's discussion and analysis have not been restated to reflect the adoption of the GASB 87, a new lease accounting standard that was required to be adopted for the fiscal year ended August 31, 2022, and retroactively restated the amounts reported in the 2021 financial statements.

Financial Highlights

- Cash and investments increased in 2022 by \$3,145,380, or 22.3 percent, and increased by \$379,222, or 2.8 percent in 2021.
- The District's net position increased in 2022 by \$1,392,779, or 6.4 percent, and increased in 2021 by \$1,685,852, or 8.4 percent.
- The District reported an operating loss in 2022 of \$3,521,890 and an operating loss in 2021 of \$4,068,922. The operating loss decreased in 2022 by \$547,032, or 13.4 percent. The operating loss decreased in 2021 by \$1,129,148, or 21.7 percent.
- Net nonoperating revenues, net (inclusive of special items recognized in 2022 and 2021) decreased by \$840,105, or 14.6 percent, in 2022 compared to 2021 and increased by \$2,807,101, or 95.2 percent, in 2021 compared to 2020.

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 presented in the following table:

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

	2022	2021 (As Restated)	2020
Assets			
Cash and cash equivalents	\$ 8,034,447	\$ 11,346,339	\$ 10,762,324
Investments	5,987,546	2,758,910	2,963,703
Receivables and other assets, net	5,934,434	2,656,857	2,071,727
Capital assets, net	5,851,059	6,003,413	5,445,944
Net pension asset	2,266,033	1,104,294	773,661
Total assets	28,073,519	23,869,813	22,017,359
Deferred Outflows of Resources - Pensions	481,190	521,081	297,342
Total assets and deferred outflows of resources	\$ 28,554,709	\$ 24,390,894	\$ 22,314,701
Liabilities and Long-term Debt	\$ 4,002,439	\$ 1,985,660	\$ 2,166,470
Deferred Inflows of Resources	1,507,244	752,987	181,836
Net Position			
Net investment in capital assets	5,851,059	6,003,413	5,438,601
Restricted for pension	2,266,033	1,104,294	773,661
Unrestricted	14,927,934	14,544,540	13,754,133
Total net position	23,045,026	21,652,247	19,966,395
Total liabilities, deferred inflows of resources and net position	\$ 28,554,709	\$ 24,390,894	\$ 22,314,701

A significant change in the District's net position in 2022 as compared to 2021, is the increase in receivables and other assets, which increased by \$3,384,213, or 161.9 percent, and the increase in liabilities and long-term debt of \$2,016,779, or 101.6 percent. Both increases are primarily due to the District's participation in the nursing home quality improvement payment program in 2022.

A significant change in the District's assets in 2021 as compared to 2020, is the increase in the net pension asset, which increased by \$330,633, or 42.7 percent, as a result of increases in fiduciary net position. Deferred outflows of resources related to pensions also increased by approximately \$224,000 (75.2 percent) for the same reason.

Operating Results and Changes in the District's Net Position

In 2022, the District's net position increased by \$1,392,779, or 6.4 percent, and by \$1,685,852, or 8.4 percent, in 2021 over 2020, as shown in Table 2.

Table 2: Operating Results and Changes in Net Position

	2022	2021 (As Restated)	2020
Operating Revenues			
Net patient service revenue	\$ 7,414,521	\$ 6,756,861	\$ 6,056,492
Nursing home net patient service revenue	3,490,291	-	-
Other	776,947	832,845	1,032,226
Total operating revenues	<u>11,681,759</u>	<u>7,589,706</u>	<u>7,088,718</u>
Operating Expenses			
Salaries, wages, and employee benefits	6,992,722	6,633,311	7,609,878
Purchased services and professional fees	1,040,357	1,146,977	1,113,834
Nursing facility fees	3,490,291	-	-
Depreciation and amortization	292,771	311,749	310,686
Supplies and other	3,387,508	3,566,591	3,252,390
Total operating expenses	<u>15,203,649</u>	<u>11,658,628</u>	<u>12,286,788</u>
Operating Loss	<u>(3,521,890)</u>	<u>(4,068,922)</u>	<u>(5,198,070)</u>
Nonoperating Revenues (Expenses)			
Property taxes	4,755,955	4,659,947	4,448,240
Investment return	(27,811)	24,120	272,931
Noncapital grants	993,314	863,415	666,584
Tobacco settlement	200,526	178,739	183,063
Indigent care and Medicaid waiver payments	(1,944,515)	(833,047)	(2,623,145)
Total nonoperating revenues, net	<u>3,977,469</u>	<u>4,893,174</u>	<u>2,947,673</u>
Special Item - Forgiveness of PPP Loan	<u>937,200</u>	<u>861,600</u>	<u>-</u>
Increase (Decrease) in Net Position	<u>\$ 1,392,779</u>	<u>\$ 1,685,852</u>	<u>\$ (2,250,397)</u>

Operating Losses

The first component of the overall change in the District's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the District has reported an operating loss. This is consistent with the District's recent operating history as the District was formed and is operated primarily to serve residents of Maverick County and the surrounding area. The District levies property taxes to provide sufficient resources to enable the facility to serve lower income and other residents.

The operating loss for 2022 decreased by \$547,032, or 13.4 percent, as compared to 2021. The primary components of the decreased operating loss are:

- An increase in net patient service revenue of \$657,660, or 9.7 percent, due to increased patient visits.
- An increase in salaries and wages and employee benefits of \$359,411, or 5.4 percent, in connection with District's retention and recruitment efforts.
- A decrease in supplies and other of \$179,083, or 5.0 percent, due to decreased supplies and drug costs.

The operating loss for 2021 decreased by \$1,129,148, or 21.7 percent, as compared to 2020. The primary components of the decreased operating loss are:

- An increase in net patient service revenue of \$700,369, or 11.6 percent, due to increased patient visits.
- A decrease in salaries and wages and employee benefits of \$976,567, or 12.8 percent.
- An increase in supplies and other of \$314,201, or 9.7 percent, due to increased supplies and drug costs.

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, net, decreased by \$915,705, or 18.7 percent, between 2021 and 2022. The decrease was primarily due to an increase in indigent care and Medicaid Waiver payments made, which increased by \$1,111,468.

Total nonoperating revenues, net, increased by \$1,945,501, or 66.0 percent, between 2020 and 2021. The increase was primarily due to a decrease in indigent care and Medicaid Waiver payments made, which decreased by \$1,790,098.

Special Item – Forgiveness of PPP Loan

The District obtained legal notice of forgiveness of the first-draw Paycheck Protection Program (PPP) loan in January 2021 in the amount of \$861,600 and obtained legal notice of forgiveness of the second-draw PPP loan in January 2022 in the amount of \$937,200. The forgiveness was recognized as a special item on the statements of revenues, expenses and changes in net position as of August 31, 2022 and 2021 in accordance with GASB Statement 62.

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 2022, 2021 and 2020 discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At August 31, 2022, the District had \$5,851,059 invested in capital assets, net of accumulated depreciation. In 2022, the District added capital assets costing approximately \$140,000.

At August 31, 2021, the District had \$6,003,413 invested in capital assets, net of accumulated depreciation. In 2021, the District added capital assets costing approximately \$869,000.

Debt

At August 31, 2022 and 2021, the District had \$0 and \$937,200, respectively, in lease liabilities and notes payable outstanding. During May 2020 and February 2021, the District obtained PPP loans 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, 2022 and 2021

Assets and Deferred Outflows of Resources

	2022	2021 (As Restated)
Current Assets		
Cash and cash equivalents	\$ 8,034,447	\$ 11,346,339
Short-term investments	1,481,444	245,897
Patient accounts receivable, net of allowance; 2022—\$1,271,000, 2021—\$1,862,000	638,740	638,196
Nursing home patient accounts receivable, net of allowance; 2022—\$752,000	3,007,660	-
Property taxes receivable, net of allowance; 2022 and 2021—\$526,000	555,402	577,257
Other receivables, net of allowance; 2022—\$595,000, 2021—\$599,000	623,863	731,052
Amounts due from third-party payers	549,170	-
Leases receivable – current	148,584	106,636
Prepaid expenses and other	100,153	144,270
Total current assets	15,139,463	13,789,647
Noncurrent Cash and Investments	4,506,102	2,513,013
Capital Assets, Net	5,851,059	6,003,413
Leases Receivable	310,862	459,446
Net Pension Asset	2,266,033	1,104,294
Total assets	28,073,519	23,869,813
Deferred Outflows of Resources - Pensions	481,190	521,081
Total assets and deferred outflows of resources	\$ 28,554,709	\$ 24,390,894

Liabilities, Deferred Inflows of Resources, and Net Position

	2022	2021 (As Restated)
Current Liabilities		
Accounts payable	\$ 268,734	\$ 247,494
Accrued salaries, wages and compensated absences	726,045	542,396
Management fee payable	3,007,660	-
Medicare Advance payments	-	258,570
	<hr/>	<hr/>
Total current liabilities	4,002,439	1,048,460
Long-term Debt	<hr/>	<hr/>
	-	937,200
	<hr/>	<hr/>
Total liabilities	4,002,439	1,985,660
Deferred Inflows of Resources		
Lease related	402,746	536,995
Pension related	1,104,498	215,992
	<hr/>	<hr/>
Total deferred inflows of resources	1,507,244	752,987
Net Position		
Net investment in capital assets	5,851,059	6,003,413
Restricted for pension	2,266,033	1,104,294
Unrestricted	14,927,934	14,544,540
	<hr/>	<hr/>
Total net position	23,045,026	21,652,247
	<hr/>	<hr/>
Total liabilities, deferred inflows of resources, and net position	\$ 28,554,709	\$ 24,390,894
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Maverick County Hospital District
Statements of Revenues, Expenses and Changes in Net Position
Years Ended August 31, 2022 and 2021

	2022	2021 (As Restated)
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2022—\$227,000, 2021—\$157,000	\$ 7,414,521	\$ 6,756,861
Nursing home net patient service revenue, net of provision for uncollectible accounts; 2022—\$752,000	3,490,291	-
Other	776,947	832,845
Total operating revenues	11,681,759	7,589,706
Operating Expenses		
Salaries and wages	6,021,196	6,104,394
Employee benefits	971,526	528,917
Purchased services and professional fees	1,040,357	1,146,977
Nursing facilities fees	3,490,291	-
Supplies and other	3,271,505	3,466,662
Professional liability insurance expense	116,003	99,929
Depreciation and amortization	292,771	311,749
Total operating expenses	15,203,649	11,658,628
Operating Loss	(3,521,890)	(4,068,922)
Nonoperating Revenues		
Property taxes	4,755,955	4,659,947
Interest income	134,244	72,822
Change in unrealized loss in fair value of investments	(162,055)	(48,702)
Noncapital grants and gifts	993,314	863,415
Tobacco settlement	200,526	178,739
Total nonoperating revenues	5,921,984	5,726,221
Nonoperating Expenses		
Indigent care and Medicaid waiver payments	(1,944,515)	(833,047)
Total nonoperating expenses	(1,944,515)	(833,047)
Total nonoperating revenues, net	3,977,469	4,893,174
Income Before Special Item	455,579	824,252
Special Item - Forgiveness of PPP Loan	937,200	861,600
Increase in Net Position	1,392,779	1,685,852
Net Position, Beginning of Year	21,652,247	19,966,395
Net Position, End of Year	\$ 23,045,026	\$ 21,652,247

Maverick County Hospital District
Statements of Cash Flows
Years Ended August 31, 2022 and 2021

	2022	2021 (As Restated)
Cash Flows from Operating Activities		
Receipts from and on behalf of patients and program participants	\$ 6,982,632	\$ 6,295,637
Payments to suppliers	(4,845,139)	(4,855,360)
Payments to employees	(7,042,415)	(7,115,780)
Other receipts, net	717,785	831,612
Net cash used in operating activities	(4,187,137)	(4,843,891)
Cash Flows from Noncapital Financing Activities		
Proceeds received from issuance of paycheck protection program loan	-	937,200
Property taxes supporting operations	4,777,810	4,575,681
Proceeds received from tobacco settlement	200,526	178,739
Noncapital grants and gifts	882,522	867,778
Medicaid waiver program payments	(1,671,203)	(593,824)
Net cash provided by noncapital financing activities	4,189,655	5,965,574
Cash Flows from Capital and Related Financing Activities		
Principal paid on long-term debt	-	(7,343)
Principal payments received on leases receivable	106,636	105,162
Interest payments received on leases receivable	15,524	18,672
Purchase of capital assets	(140,417)	(869,218)
Net cash used in capital and related financing activities	(18,257)	(752,727)
Cash Flows from Investing Activities		
Investment income	(67,517)	10,266
Purchase of investments	(4,218,636)	(1,435,207)
Proceeds from sale of investments	990,000	1,640,000
Net cash provided by (used in) investing activities	(3,296,153)	215,059
Increase (Decrease) in Cash and Cash Equivalents	(3,311,892)	584,015
Cash and Cash Equivalents, Beginning of Year	11,346,339	10,762,324
Cash and Cash Equivalents, End of Year	\$ 8,034,447	\$ 11,346,339

Maverick County Hospital District
Statements of Cash Flows (Continued)
Years Ended August 31, 2022 and 2021

	<u>2022</u>	<u>2021</u> <u>(As Restated)</u>
Reconciliation of Operating Loss to Net Cash		
Used in Operating Activities		
Operating loss	\$ (3,521,890)	\$ (4,068,922)
Depreciation and amortization	292,771	311,749
Provision for uncollectible accounts	978,646	156,743
Changes in operating assets and liabilities		
Patient accounts receivable and other, net	(1,010,339)	(338,636)
Accounts payable and accrued expenses	2,663,379	(104,426)
Medicare Advance payments	(258,570)	(144,641)
Net pension asset	(1,161,739)	(330,633)
Deferred outflows of resources - pensions	39,891	(223,739)
Deferred inflows of resources - pensions and leases	(2,253,403)	(101,767)
Other assets and liabilities	44,117	381
	<u>\$ (4,187,137)</u>	<u>\$ (4,843,891)</u>
Supplemental Cash Flows Information		
Forgiveness of PPP loan	\$ 937,200	\$ 861,600

Maverick County Hospital District

Notes to Financial Statements

August 31, 2022 and 2021

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

Nature of Operations and Reporting Entity

Maverick County Hospital District (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.

In 2021, the Maverick County Hospital District Foundation (Foundation) was formed to raise funds for the District and is a legally separate entity from the District. The Foundation is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code (IRC). The Foundation has no corporate member; however, the Foundation is reported as a blended component unit of the District since the Foundation's Board of Directors is approved by the District and they can impose its will on the Foundation. The Foundation does not issue separate financial statements and fiscal year 2021 financial activity was not material.

In 2022, the District also acquired the operations of three nursing homes located in the District's service area.

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.

Maverick County Hospital District

Notes to Financial Statements

August 31, 2022 and 2021

Cash Equivalents

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At August 31, 2022 and 2021, cash equivalents consisted of investments in public fund investment pools that included funds used for operations.

Property Taxes

The District received approximately 27 and 35 percent of its financial support from property taxes in 2022 and 2021, respectively. These funds were used to support operations.

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, 2022 and 2021. Property tax revenue totaled \$4,755,955 and \$4,659,947 for 2022 and 2021, 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.

Maverick County Hospital District

Notes to Financial Statements

August 31, 2022 and 2021

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

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 balance sheet.

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 balance sheet.

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.

Maverick County Hospital District

Notes to Financial Statements

August 31, 2022 and 2021

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.

Net Patient Service Revenue

Net patient service revenue is derived from services of physicians employed by the District and the District's nursing homes. The District has agreements with third-party payers that provide for payments to the District at amounts different from established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, and include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Net patient service revenue also includes revenue from the collection of co-insurance 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. 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 \$273,000 and \$239,000 in indigent care to participants in the District's indigent care program in 2022 and 2021, respectively.

Income Taxes

The District is generally exempt from federal and state income taxes under Section 115 of the IRC and a similar provision of state law. The Foundation is exempt from federal income tax under Section 501(c)(3). Both the District and the Foundation are subject to federal income tax on any unrelated business taxable income.

Change in Accounting Principle

On September 1, 2020, the District adopted GASB Statement No. 87, *Leases*, using a retrospective method of adoption to all leases in place and not yet completed at the beginning of the earliest period presented. The statement requires lessors to recognize a lease receivable, measured at the present value of payments expected to be made during the lease term, and a deferred inflows of resources for the lease. The 2021 financial statements and notes to the financial statements were restated to reflect the impact of this adoption.

Maverick County Hospital District
Notes to Financial Statements
August 31, 2022 and 2021

The effect of the changes made to the accompanying financial statements as of and for the year ended August 31, 2021 are as follows:

	2021 (As Previously Reported)	Effect of Adoption	2021 (As Restated)
Balance Sheet			
Leases receivable – current	\$ -	\$ 106,636	\$ 106,636
Total current assets	\$ 13,683,011	\$ 106,636	\$ 13,789,647
Leases Receivable	\$ -	\$ 459,446	\$ 459,446
Total assets	\$ 23,303,731	\$ 566,082	\$ 23,869,813
Total assets and deferred outflows of resources	\$ 23,824,812	\$ 566,082	\$ 24,390,894
Deferred Inflows of Resources – Leases	\$ -	\$ 536,995	\$ 536,995
Total deferred inflows of resources	\$ 215,992	\$ 536,995	\$ 752,987
Unrestricted net position	\$ 14,515,453	\$ 29,087	\$ 14,544,540
Total net position	\$ 21,623,160	\$ 29,087	\$ 21,652,247
Total liabilities, deferred inflows of resources and net position	\$ 23,824,812	\$ 566,082	\$ 24,390,894
Statement of Revenues, Expenses, and Changes in Net Position			
Other	\$ 820,756	\$ 12,089	\$ 832,845
Total operating revenues	\$ 7,577,617	\$ 12,089	\$ 7,589,706
Operating Loss	\$ (4,081,011)	\$ 12,089	\$ (4,068,922)
Interest income	\$ 55,824	\$ 16,998	\$ 72,822
Total nonoperating revenues (expenses)	\$ 5,709,223	\$ 16,998	\$ 5,726,221
Income before special item	\$ 795,165	\$ 29,087	\$ 824,252
Increase in net position	\$ 1,656,765	\$ 29,087	\$ 1,685,852
Net position, end of year	\$ 21,623,160	\$ 29,087	\$ 21,652,247
Statement of Cash Flows			
Other receipts, net	\$ 955,446	\$ (123,834)	\$ 831,612
Net cash provided by (used in) operating activities	\$ (4,720,057)	\$ (123,834)	\$ (4,843,891)
Principal payments received on leases receivable	\$ -	\$ 105,162	\$ 105,162
Interest payments received on leases receivable	\$ -	\$ 18,672	\$ 18,672
Net cash used in capital and related financing activities	\$ (876,561)	\$ 123,834	\$ (752,727)
Reconciliation of Operating Loss to Net Cash Provided By (Used in) Operating Activities			
Operating loss	\$ (4,081,011)	\$ 12,089	\$ (4,068,922)
Changes in operating assets and liabilities			
Deferred inflows of resources - pensions and leases	\$ 34,156	\$ (135,923)	\$ (101,767)
Net cash provided by (used in) operating activities	\$ (4,720,057)	\$ (123,834)	\$ (4,843,891)

Maverick County Hospital District
Notes to Financial Statements
August 31, 2022 and 2021

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 \$1,671,203 and \$593,824 for the years ended August 31, 2022 and 2021, respectively.

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, 2022 and 2021, 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.

Maverick County Hospital District
Notes to Financial Statements
August 31, 2022 and 2021

At August 31, 2022 and 2021, the District had the following investments and maturities:

<u>Type</u>	<u>August 31, 2022</u>		
	<u>Fair Value</u>	<u>Maturities in Years</u>	
		<u>Less than 1</u>	<u>1-5</u>
U.S. agency obligations	\$ 3,827,275	\$ 745,439	\$ 3,081,836
Certificates of deposit	2,160,271	736,005	1,424,266
Texas TERM Investment Pool	2,512,356	2,512,356	-
Texas Class Investment Pool	3,361,532	3,361,532	-
	<u>\$11,861,434</u>	<u>\$ 7,355,332</u>	<u>\$ 4,506,102</u>

<u>Type</u>	<u>August 31, 2021</u>		
	<u>Fair Value</u>	<u>Maturities in Years</u>	
		<u>Less than 1</u>	<u>1-5</u>
U.S. agency obligations	\$ 739,374	\$ -	\$ 739,374
Certificates of deposit	2,019,536	245,897	1,773,639
Texas Class Investment Pool	9,308,122	9,308,122	-
	<u>\$12,067,032</u>	<u>\$ 9,554,019</u>	<u>\$ 2,513,013</u>

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 U.S. agency obligations are rated AA+ by Standard & Poor’s rating agency at August 31, 2022 and 2021.

The District also utilizes a pooled investment concept for its funds to maximize its investment program by investing in TexCLASS and Texas TERM, which are investment pools authorized by the Texas Legislature. The Texas Treasury Safekeeping Trust Company is the trustee for TexCLASS and is a limited purpose trust company authorized pursuant to Texas Government Code. Texas TERM Local Government Investment Pool has been organized in conformity with the Texas Government Code. The pools use 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.

Maverick County Hospital District
Notes to Financial Statements
August 31, 2022 and 2021

The District also invests in certificates of deposit, which are classified as investments for financial reporting purposes. Approximately \$0 and \$290,000 of the District’s certificates of deposit were uninsured and were not collateralized in accordance with state law at August 31, 2022 and 2021, respectively.

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.

The following table reflects the District’s investments in single issuers that represent more than 5 percent of total investments at August 31, 2022 and 2021.

	<u>2022</u>	<u>2021</u>
Federal Farm Credit Bank	36%	0%
Federal Home Loan Bank	28%	27%
Capital One Bank	8%	28%
Morgan Stanley Bank	8%	18%
Wells Fargo Bank	0%	9%
Luana Saving Bank	4%	9%
Goldman Sachs	4%	9%

Maverick County Hospital District
Notes to Financial Statements
August 31, 2022 and 2021

Summary of Carrying Values

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

	2022	2021
Carrying value		
Deposits	\$ 2,160,559	\$ 2,038,217
Investments	11,861,434	12,067,032
	\$ 14,021,993	\$ 14,105,249
 Included in the following balance sheet captions		
Cash and cash equivalents	\$ 8,034,447	\$ 11,346,339
Short-term investments	1,481,444	245,897
Noncurrent cash and investments	4,506,102	2,513,013
	\$ 14,021,993	\$ 14,105,249

Note 4: Capital Assets

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

	2022				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land and land improvements	\$ 1,739,670	\$ 12,208	\$ -	\$ -	\$ 1,751,878
Buildings and improvements	7,651,357	-	-	-	7,651,357
Equipment	2,245,560	116,388	(22,751)	-	2,339,197
Construction in progress	-	11,821	-	-	11,821
	11,636,587	140,417	(22,751)	-	11,754,253
 Less accumulated depreciation:					
Land improvements	187,514	30,696	-	-	218,210
Buildings and improvements	3,604,929	149,774	-	-	3,754,703
Equipment	1,840,731	112,301	(22,751)	-	1,930,281
	5,633,174	292,771	(22,751)	-	5,903,194
 Capital assets, net	\$ 6,003,413	\$ (152,354)	\$ -	\$ -	\$ 5,851,059

Maverick County Hospital District
Notes to Financial Statements
August 31, 2022 and 2021

	2021				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land and land improvements	\$ 965,530	\$ 774,140	\$ -	\$ -	\$ 1,739,670
Buildings and improvements	7,638,858	12,499	-	-	7,651,357
Equipment	2,162,981	82,579	-	-	2,245,560
	<u>10,767,369</u>	<u>869,218</u>	<u>-</u>	<u>-</u>	<u>11,636,587</u>
Less accumulated depreciation:					
Land improvements	149,091	38,423	-	-	187,514
Buildings and improvements	3,464,669	140,260	-	-	3,604,929
Equipment	1,707,665	133,066	-	-	1,840,731
	<u>5,321,425</u>	<u>311,749</u>	<u>-</u>	<u>-</u>	<u>5,633,174</u>
Capital assets, net	<u>\$ 5,445,944</u>	<u>\$ 557,469</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 6,003,413</u>

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.

Maverick County Hospital District

Notes to Financial Statements

August 31, 2022 and 2021

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.

Note 6: Medical Office Building Lease

The District leases office space in its medical office building to unrelated parties that originally expired August 31, 2022. In May 2022, the District renewed the lease for an additional three year term, which expires August 31, 2025. Rent and interest revenue recognized under lease contracts during the years ended August 31, 2022 and 2021 was approximately \$227,000 and \$217,000 for 2022 and 2021, respectively, and is recognized as a component of other operating revenue in the statements of revenues, expenses and changes in net position. At August 31, 2022 and 2021, lease receivables under this agreement were approximately \$459,000 and \$566,000, respectively. At August 31, 2022 and 2021, deferred inflows of resources under this agreement were approximately \$403,000 and \$537,000, respectively.

Maverick County Hospital District

Notes to Financial Statements

August 31, 2022 and 2021

Note 7: Pension Plans

Defined Contribution Plan Description

The District offers a 457(b) defined contribution pension 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 \$44,000 and \$49,000 during 2022 and 2021, 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 TCDRS. 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 TCDRS. The Plan does not issue a separate report that includes financial statements and required supplementary information for the plan. TCDRS in the aggregate issues an annual comprehensive financial report (ACFR) on a calendar year basis. The ACFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034 or from the website www.tcdrs.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 TCDRS 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 TCDRS.

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).

Maverick County Hospital District
Notes to Financial Statements
August 31, 2022 and 2021

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

	2020	2019
Inactive employees or beneficiaries currently receiving benefits	6	7
Inactive employees entitled to but not yet receiving benefits	80	60
Active employees	95	87
	181	154

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 6.0 percent 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, 2022, employees contributed \$298,637, or 6.0 percent of annual pay, and the District contributed \$144,558, or 3.3 percent of annual pay. For the year ended August 31, 2021, employees contributed \$282,477, or 4.8 percent of annual pay, and the District contributed \$137,654 or 2.3 percent of annual pay, to the Plan.

Net Pension Asset

The District’s net pension asset as of August 31, 2022 and 2021, was measured as of December 31, 2021 and 2020, 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
Notes to Financial Statements
August 31, 2022 and 2021

The total pension liability in the December 31, 2021 and 2020 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurements:

	2021	2020
Inflation	2.50%	2.50%
Salary increases (average over career, including inflation)	4.70%	4.60%
Ad hoc cost of living adjustments	Not included	Not included
Investment rate of return (net of investment expenses, including inflation)	7.50%	7.50%

Mortality rates for depositing members in the 2021 valuation were based on the RP-2014 Active Employee Mortality Table with a 120 percent for females and 135 percent for males, both projected with 100 percent of the MP-2021 Ultimate scale after 2010.

Mortality rates for depositing members in the 2020 valuation were based on the RP-2014 Active Employee Mortality Table with a 110 percent for females and 130 percent for males, both projected with 110 percent of the MP-2014 Ultimate scale after that.

The actuarial assumptions used in the December 31, 2021 and 2020 valuations were based on the results of an actuarial experience study for the period January 1, 2017 through December 2020 and January 1, 2013 through December 31, 2016, respectively.

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:

Maverick County Hospital District
Notes to Financial Statements
August 31, 2022 and 2021

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Equities		
U.S. Equities	11.5%	3.8%
International Equities — Developed	5.0%	3.8%
International Equities — Emerging	6.0%	4.3%
Global Equities	2.5%	4.1%
Hedge Funds	6.0%	1.6%
High-Yield Investments		
Strategic Credit	9.0%	1.8%
Distressed Debt	4.0%	4.5%
Direct Lending	16.0%	6.3%
Private Equity	25.0%	6.8%
Real Assets		
REITs	2.0%	3.1%
Private Real Estate Partnerships	6.0%	5.1%
Master Limited Partnerships	2.0%	3.9%
Cash Equivalents	2.0%	-1.1%
Investment-Grade Bonds	3.0%	-0.9%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.6 percent at both December 31, 2021 and 2020. 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.

Maverick County Hospital District
Notes to Financial Statements
August 31, 2022 and 2021

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

	2022		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balances at beginning of year	\$ 6,240,196	\$ 7,344,490	\$ (1,104,294)
Changes for the year:			
Service cost	484,642	-	484,642
Interest on total pension liability	502,847	-	502,847
Effect of economic/demographic gains or losses	(124,018)	-	(124,018)
Effect of assumptions, changes or inputs	(3,916)	-	(3,916)
Refund of contributions	(41,960)	(41,960)	-
Benefit payments	(178,951)	(178,951)	-
Administrative expenses	-	(4,947)	4,947
Member contributions	-	296,307	(296,307)
Net investment income	-	1,632,334	(1,632,334)
Employer contributions	-	90,867	(90,867)
Other changes	-	6,733	(6,733)
Net changes	<u>638,644</u>	<u>1,800,383</u>	<u>(1,161,739)</u>
Balances at end of year	<u>\$ 6,878,840</u>	<u>\$ 9,144,873</u>	<u>\$ (2,266,033)</u>

Maverick County Hospital District

Notes to Financial Statements

August 31, 2022 and 2021

	2021		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Asset (a) - (b)
Balances at beginning of year	\$ 5,421,782	\$ 6,195,443	\$ (773,661)
Changes for the year:			
Service cost	589,731	-	589,731
Interest on total pension liability	482,994	-	482,994
Effect of plan changes	(642,457)	-	(642,457)
Effect of economic/demographic gains or losses	80,853	-	80,853
Effect of assumptions, changes or inputs	406,461	-	406,461
Refund of contributions	(31,715)	(31,715)	-
Benefit payments	(67,453)	(67,453)	-
Administrative expenses	-	(5,374)	5,374
Member contributions	-	295,394	(295,394)
Net investment income	-	641,049	(641,049)
Employer contributions	-	301,795	(301,795)
Other changes	-	15,351	(15,351)
Net changes	818,414	1,149,047	(330,633)
Balances at end of year	\$ 6,240,196	\$ 7,344,490	\$ (1,104,294)

The District's net pension asset has been calculated using a discount rate of 7.6 percent. The following table presents the net pension asset using a discount rate 1 percent higher and 1 percent lower than the current rate for August 31:

	2022		
	1% Decrease 6.6%	Current Discount Rate 7.6%	1% Increase 8.6%
District's net pension asset	\$ (1,192,652)	\$ (2,266,033)	\$ (3,151,501)

Maverick County Hospital District

Notes to Financial Statements

August 31, 2022 and 2021

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended August 31, 2022 and 2021, the District recognized pension expense (reduction of pension expense) of approximately (\$88,000) and (\$382,000), respectively. At August 31, 2022 and 2021, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2022	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 89,963	\$ 113,581
Changes of assumptions	272,137	3,133
Net difference between projected and actual earnings on plan investments	-	987,784
Contributions subsequent to the measurement date	119,090	-
	\$ 481,190	\$ 1,104,498
	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ 115,459	\$ 26,089
Changes of assumptions	341,047	-
Net difference between projected and actual earnings on plan investments	-	189,903
Contributions subsequent to the measurement date	64,575	-
	\$ 521,081	\$ 215,992

Maverick County Hospital District
Notes to Financial Statements
August 31, 2022 and 2021

At August 31, 2022 and 2021, the District reported \$119,090 and \$64,575, respectively, 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, 2022 and 2021, respectively. Other amounts reported as deferred outflows of resources and deferred inflows of resources at August 31, 2022, related to pensions will be recognized in pension expense as follows:

Year ending August 31:

2023	\$ (162,953)
2024	(249,404)
2025	(170,910)
2026	(159,131)
2027	-
	\$ (742,398)

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, 2021.

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, 2022 and 2021

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, 2022 and 2021:

	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, 2022				
Investments by fair value level				
U.S. agency obligations	\$ 3,827,275	\$ -	\$ 3,827,275	\$ -
Total investments by fair value level	3,827,275	<u>\$ -</u>	<u>\$ 3,827,275</u>	<u>\$ -</u>
Investments measured at net asset value				
Texas TERM Investment Pool	2,512,356			
Texas Class Investment Pool	3,361,532			
Certificates of deposit	<u>2,160,271</u>			
Total investments	<u>\$ 11,861,434</u>			
August 31, 2021				
Investments by fair value level				
U.S. agency obligations	\$ 739,374	\$ -	\$ 739,374	\$ -
Total investments by fair value level	739,374	<u>\$ -</u>	<u>\$ 739,374</u>	<u>\$ -</u>
Investments measured at net asset value				
Texas Class Investment Pool	9,308,122			
Certificates of deposit	<u>2,019,536</u>			
Total investments	<u>\$ 12,067,032</u>			

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.

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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, 2022 and 2021, no investments were held by the District meeting the Level 3 hierarchy classification.

Investment in State Investment Pools – During 2022 and 2021, the District invested in Texas CLASS and Texas TERM, public fund investment pools. Investments in the pools 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 pools are 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.

Note 9: Long-Term Obligations

The following is a summary of long-term obligation transactions for the District for the years ended August 31, 2022 and 2021:

	2022				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
PPP Loans	\$ 937,200	\$ -	\$ (937,200)	\$ -	\$ -
Total long-term obligations	<u>\$ 937,200</u>	<u>\$ -</u>	<u>\$ (937,200)</u>	<u>\$ -</u>	<u>\$ -</u>

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	2021				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Lease liabilities	\$ 7,343	\$ -	\$ (7,343)	\$ -	\$ -
PPP Loans	861,600	937,200	(861,600)	937,200	-
Total long-term obligations	<u>\$ 868,943</u>	<u>\$ 937,200</u>	<u>\$ (868,943)</u>	<u>\$ 937,200</u>	<u>\$ -</u>

Paycheck Protection Program Loans

During May 2020, the District obtained a loan under the Paycheck Protection Program (PPP). The PPP loan was originally due May 7, 2022, with monthly interest payments at 1.00 percent and monthly principal payments beginning December 7, 2020. The District obtained legal notice of forgiveness of the PPP loan in January 2021 and the forgiveness was recognized as a special item on the statements of revenues, expenses and changes in net position as of August 31, 2021 in accordance with GASB Statement 62.

During February 2021, the District obtained a second loan under the PPP in the amount of \$937,200. Monthly principal and interest payments at 1.00 percent, totaling \$26,965 were due beginning March 25, 2023 through February 25, 2026, at which point the balance was due in full. The District obtained legal notice of forgiveness of the PPP loan in January 2022 and the forgiveness was recognized as a special item on the statements of revenues, expenses and changes in net position as of August 31, 2022 in accordance with GASB Statement 62.

Note 10: Nursing Home Operations

During 2022, the District entered into lease and management agreements with a nursing home operator that resulted in the District becoming the legal operator of multiple nursing homes. Under the management agreements, the manager provides all services necessary to operate the home, including employees, supplies, and other operating costs. The manager also provides all billing and collecting services. All patient revenue from the facility is paid to the District. From these collections, the District pays the manager for all facility costs and the management fee pursuant to the agreement. However, the District payments to the manager are limited to the amount of net patient service revenue received from the facility. At its option, the District may pay additional amounts to the manager above the amounts collected for patient revenue.

Net Patient Service Revenue

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

Maverick County Hospital District

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August 31, 2022 and 2021

For years ended August 31, 2022 and 2021, substantially all of the District's nursing home net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change.

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

The District participates in the Quality Improvement Payment Program (QIPP). The program is designed to assist nursing facilities servicing indigent patients by providing funding to support increased access to healthcare within the community. It is also designed to allow participating providers to receive additional reimbursement if they either reach a national benchmark level or they make quarterly improvements in up to four predetermined quality measures. This program is subject to review and scrutiny by both the Texas Legislature and the Centers for Medicare and Medicaid Services and could be modified or terminated based on new legislation or regulation in future periods. At August 31, 2022, the District had prepaid intergovernmental transfers of \$549,170 related to this program. For 2022, total revenues and expenses related to the nursing homes were \$3,490,291.

Note 11: 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.

Provider Relief Fund

The District received approximately \$261,000 and \$64,000 of distributions from the *Coronavirus Aid, Relief, and Economic Act* (CARES Act) Provider Relief Fund during the years ended August 31, 2022 and 2021, respectively. 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.

The District is accounting for such payments as conditional contributions. Payments are recognized as non-operating revenue once the applicable terms and conditions required to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the District's operating revenues and expenses through August 31, 2022 and 2021, the District recognized approximately \$261,000 and

Maverick County Hospital District

Notes to Financial Statements

August 31, 2022 and 2021

\$64,000, respectively, related to the Provider Relief Fund, and these payments are recorded as nonoperating revenue - noncapital grants and gifts in the statements of revenues, expenses and changes in net position.

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 and received 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 were recaptured by the Centers for Medicare and Medicaid Services (CMS) according to the payback provisions.

The District's outstanding balance related to the accelerated Medicare payments was approximately \$0 and \$259,000 at August 31, 2022 and 2021, respectively.

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 District received two PPP loans as previously disclosed in *Note 9*.

Note 12: Future Change in Accounting Principle

GASB Statement No. 96, Subscription-Based Information Technology Arrangements (GASB 96), addresses the accounting for the costs related to cloud computing agreements. The standard defines a subscription-based information technology arrangement (SBITA), establishes that a SBITA would result in a right-to-use (RTU) asset and a corresponding liability, provides capitalization criteria, and requires new note disclosures. The Statement's language and concepts closely mirror the lease guidance provided in Statement 87, Leases. This statement requires governments report a subscription asset and subscription liability for a SBITA and to disclose essential information about the arrangement. The disclosures will allow users to understand the scale and important aspects of a government's SBITA activities and evaluate a government's obligations and assets resulting from SBITAs.

GASB 96 is effective for the District's fiscal year ending August 31, 2023. The changes should be applied retroactively.

Maverick County Hospital District

Notes to Financial Statements

August 31, 2022 and 2021

Note 13: Subsequent Event

Subsequent to year-end, the District acquired four nursing homes for participation in the District's nursing home QIPP program.

Required Supplementary Information

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

	2021	2020	2019	2018	2017	2016	2015	2014
Total pension liability								
Service cost	\$ 484,641	\$ 589,731	\$ 589,246	\$ 404,707	\$ 388,012	\$ 287,349	\$ 307,603	\$ 332,561
Interest on total pension liability	502,847	482,994	411,286	336,832	290,693	238,238	216,704	182,393
Effect of plan changes	-	(642,457)	-	-	-	-	(49,031)	-
Effect of assumption changes or inputs	(3,916)	406,461	-	-	6,993	-	32,490	-
Effect of economic and demographic gains	(124,018)	80,853	(8,263)	84,142	(57,868)	(5,377)	(128,830)	(6,419)
Benefit payments, including refunds of employee contributions	(220,912)	(99,168)	(115,440)	(67,577)	(81,946)	(156,114)	(68,123)	(61,222)
Net change in total pension liability	638,642	818,414	876,829	758,104	545,884	364,096	310,813	447,313
Total pension liability—beginning	6,240,196	5,421,782	4,544,953	3,786,849	3,240,965	2,876,869	2,566,056	2,118,743
Total pension liability—ending (a)	\$ 6,878,838	\$ 6,240,196	\$ 5,421,782	\$ 4,544,953	\$ 3,786,849	\$ 3,240,965	\$ 2,876,869	\$ 2,566,056
Plan fiduciary net position								
Contributions—employer	\$ 90,867	\$ 301,795	\$ 261,088	\$ 194,861	\$ 134,514	\$ 118,580	\$ 111,235	\$ 88,493
Contributions—employee	296,307	295,394	292,809	223,549	180,555	152,340	131,899	134,761
Net investment income net of investment expenses	1,632,334	641,049	810,100	(82,912)	567,247	257,852	(106,675)	197,186
Benefit payments, including refunds of employee contributions	(220,912)	(99,168)	(115,440)	(67,577)	(81,946)	(156,114)	(68,123)	(61,222)
Administrative expense	(4,947)	(5,374)	(4,721)	(3,964)	(3,100)	(2,803)	(2,482)	(2,482)
Other	6,733	15,351	15,875	10,919	3,095	26,523	3,644	11,935
Net change in plan fiduciary net position	1,800,382	1,149,047	1,259,711	274,876	800,365	396,378	69,498	368,671
Plan fiduciary net position—beginning	7,344,490	6,195,443	4,935,732	4,660,856	3,860,491	3,464,113	3,394,615	3,025,944
Plan fiduciary net position—ending (b)	\$ 9,144,872	\$ 7,344,490	\$ 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)	\$ (2,266,034)	\$ (1,104,294)	\$ (773,661)	\$ (390,779)	\$ (874,007)	\$ (619,526)	\$ (587,244)	\$ (828,559)
Plan fiduciary net position as a percentage of the total pension asset	132.94%	117.70%	114.27%	108.60%	123.08%	119.12%	120.41%	132.29%
Covered-employee payroll	\$ 4,938,443	\$ 4,923,241	\$ 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	-45.89%	-22.43%	-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
2022	\$ 144,558	\$ 144,558	\$ -	\$ 4,970,818	2.9%
2021	\$ 137,654	\$ 137,654	\$ -	\$ 5,941,465	2.3%
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 (level percentage of pay)
Amortization method	Closed
Remaining amortization period	0.0 years
Asset valuation method	5-year smoothed market
Inflation	2.5%
Salary increases	4.7% average over career, including inflation
Investment rate of return	7.50%, net of pension plan investment expense, including inflation
Retirement age	61 (average)
Mortality	135% of the Pub-2010 General Retirees Table for males and 120% of the Pub-2010 General Retirees Table for females, both projected with 100% of the MP-2021 Ultimate scale after 2010.

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.