

Board of Directors and Management
Maverick County Hospital District
Eagle Pass, Texas

As part of our audit of the financial statements of Maverick County Hospital District (District) as of and for the year ended August 31, 2020, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America

An audit performed in accordance with auditing standards generally accepted in the United States of America is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our engagement letter more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our engagement letter more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The District's significant accounting policies are described in *Note 1* of the audited financial statements.

Alternative Accounting Treatments

No matters are reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Valuation of patient accounts receivable
- Value of property taxes receivable and tax revenue
- Net pension asset
- Provider Relief Fund revenue recognition – The District is a recipient of distributions from the Provider Relief Fund established by the CARES Act. The District attested to the terms and conditions upon receipt of the funding, including the requirement to demonstrate that funds received have been used for health care-related expenses or lost revenue attributable to coronavirus as defined in the CARES Act. Based on guidance issued by the U.S. Department of Health and Human Services as of August 31, 2020, management recognized revenue from the Provider Relief Fund based on expenses attributable to coronavirus that have not been reimbursed from other sources or that other sources are not obligated to reimburse, including expenses to maintain health care delivery capacity.

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Indigent care
- Defined benefit pension plan
- COVID-19 and CARES Act Funding

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. A misstatement is a difference between the amount, classification, presentation or disclosure of a reported financial statement item and that which is required for the item to be presented fairly in accordance with the applicable financial reporting framework. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include:

Proposed Audit Adjustments Recorded

- No matters are reportable.

Proposed Audit Adjustments Not Recorded

- Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, but more than trivial to the financial statements as a whole.

Auditor's Judgments About the Quality of the Entity's Accounting Principles

No matters are reportable.

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letter (*attached*)
- We orally communicated to management other deficiencies in internal control identified during our audit that are not considered material weaknesses or significant deficiencies

OTHER MATTERS

Medicare Advance Payments and Provider Relief Funds

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), as part of the government's response to the spread of the SARS-CoV-2 virus and the incidence of COVID-19. The CARES Act contained provisions expanding the Medicare Accelerated and Advanced Payment Program and providing support to health care providers through Provider Relief Funds.

Medicare Advance Payments

The Medicare Accelerated and Advanced Payment Program is advance payment that will have to be paid back on terms that are set by the regulations. The District received approximately \$403,000 under this program. The District will continue to submit claims as usual after receiving the advanced payment; however, one year after the lump-sum payment was received, the Medicare Administrative Contractor will recoup 25% of the remittance payment for the first 11-month period, then 50% of the remittance payment the next six-month period of any future Medicare remittance payments to satisfy the advanced payment received. The provider's Medicare payments will be reduced until the advanced payment amount is paid off in full dependent on the amount of advanced payment received and current billings to Medicare. After 29 months, the Centers for Medicare and Medicaid Services will expect any amounts not paid back through the withholds to be paid by lumpsum settlements.

Proper accounting for these funds will require coordination between the finance and revenue cycle departments to identify amounts withheld during the repayment period to match back against the advance payment to determine the proper amount was withheld to satisfy the advance payment previously received.

Provider Relief Funds

The District received approximately \$118,000 of distributions from the Provider Relief Fund. These distributions 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). Based on an analysis of the compliance and reporting requirements and the effect of the pandemic on the District's operating revenues and expenses through August 31, 2020, the District recognized \$118,000 of revenue from this program. 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.

The District should 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 Funds 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.

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.

GASB 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 89 – Accounting for Interest Cost Incurred Before the End of a Construction Period

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, removes the concept of capitalized interest from all types of governmental entities. This Statement is effective for the District's fiscal year ending August 31, 2022 and will be applied prospectively.

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

BKD, LLP

January 27, 2021



January 27, 2021

BKD, LLP

Certified Public Accountants
14241 Dallas Parkway, Suite 1100
Dallas, Texas 75257-961

We, Maverick County Hospital District (District), are providing this letter in connection with your audits of our financial statements as of and for the years ended August 31, 2020 and 2019. We confirm that we are responsible for the fair presentation of the financial statements in conformity with accounting principles generally accepted in the United States of America. We are also responsible for adopting sound accounting policies, establishing and maintaining effective internal control over financial reporting, operations and compliance, and preventing and detecting fraud.

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

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our engagement letter dated July 15, 2020, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
3. We acknowledge our responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud.
4. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We acknowledge that we are responsible for the fair presentation of the financial statements and related notes.
5. We have provided you with:

- (a) Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation and other matters.
 - (b) Additional information that you have requested from us for the purpose of the audit.
 - (c) Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - (d) All minutes of directors' meetings held through the date of this letter.
 - (e) All significant contracts and grants.
 - (f) All peer review organizations, fiscal intermediary and third-party payer reports and information.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. We have informed you of all current risks of a material amount that are not adequately prevented or detected by company procedures with respect to:
- (a) Misappropriation of assets.
 - (b) Misrepresented or misstated assets or liabilities.
8. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
9. We have no knowledge of any known or suspected:
- (a) Fraudulent financial reporting or misappropriation of assets involving management or employees who have significant roles in internal control.
 - (b) Fraudulent financial reporting or misappropriation of assets involving others that could have a material effect on the financial statements.
 - (c) Communications from regulatory agencies, governmental representatives, employees or others concerning investigations or allegations of noncompliance with laws and regulations, deficiencies in financial reporting practices or other matters that could have a material adverse effect on the financial statements.

10. We have no knowledge of any allegations of fraud or suspected fraud affecting the District received in communications from employees, customers, regulators, suppliers or others.
11. We have disclosed to you the results of our assessment of the risk that the financial statements may be materially misstated as a result of fraud.
12. We have disclosed to you the identity of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America. We understand that the term related party refers to an affiliate; principal owners, management, and members of their immediate families, subsidiaries accounted for by the equity method; and any other party with which the District may deal if the District can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the District.
13. Except as reflected in the financial statements, there are no:
 - (a) Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
 - (b) Material transactions omitted or improperly recorded in the financial records.
 - (c) Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
 - (d) Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the financial statements.
 - (e) Agreements to purchase assets previously sold.
 - (f) Restrictions on cash balances or compensating balance agreements.
 - (g) Guarantees, whether written or oral, under which the District is contingently liable.
14. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
15. We have no reason to believe the District owes any penalties or payments under the Employer Shared Responsibility Provisions of the Patient Protection and Affordable Care Act nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.

16. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
17. We have informed you of all pending or completed investigations by regulatory authorities of which we are aware. There are no known circumstances that could jeopardize the District's participation in the Medicare or other governmental health care programs.
18. Adequate provisions and allowances have been accrued for any material losses from:
 - (a) Uncollectible receivables.
 - (b) Medicare/Medicaid and other third-party payer contractual, audit or other adjustments.
 - (c) Reducing obsolete or excess inventories to estimated net realizable value.
 - (d) Purchase commitments in excess of normal requirements or above prevailing market prices.
19. Except as disclosed in the financial statements, the District has:
 - (a) Satisfactory title to all recorded assets, and they are not subject to any liens, pledges or other encumbrances.
 - (b) Complied with all aspects of contractual agreements, for which noncompliance would materially affect the financial statements.
20. With respect to the District's possible exposure to past or future medical malpractice assertions:
 - (a) We have disclosed to you all incidents known to us that could possibly give rise to an assertion of malpractice.
 - (b) All known incidents have been reported to the appropriate medical malpractice insurer and are appropriately considered in our malpractice liability accrual.
 - (c) There is no known lapse in coverage, including any lapse subsequent to the fiscal year-end, that would result in any known incidents being uninsured.
 - (d) Management does not expect any claims to exceed malpractice insurance limits.

- (e) We believe our accruals for malpractice claims are sufficient for all known and probable potential claims.
21. With regard to deposit and investment activities:
- (a) All deposit, repurchase and reverse repurchase agreements and investment transactions have been made in accordance with legal and contractual requirements.
 - (b) Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.
 - (c) We understand that your audit does not represent an opinion regarding the enforceability of collateral pledges.
22. With respect to any nonattest services you have provided us during the year, including drafting the financial statements and related notes:
- (a) We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.
 - (b) We have established and monitored the performance of the nonattest services to ensure that they meet our objectives.
 - (c) We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
 - (d) We have evaluated the adequacy of the services performed and any findings that resulted.
23. The supplementary information required by the Governmental Accounting Standards Board, consisting of management's discussion and analysis and pension information has been prepared and is measured and presented in conformity with the applicable GASB pronouncements, and we acknowledge our responsibility for the information. The information contained therein is based on all facts, decisions and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. We believe the significant assumptions underlying the measurement and/or presentation of the information are reasonable and appropriate. There has been no change from the preceding period in the methods of measurement and presentation.
24. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance

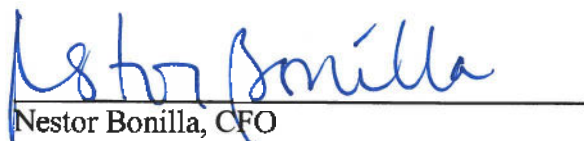
sheet date which could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur which would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.

25. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.
26. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
27. Billings to third-party payers comply in all material respects with applicable coding guidelines, laws and regulations. Billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory bodies, if required; and properly rendered.
28. With regard to cost reports filed with Medicare, Medicaid or other third parties:
 - (a) All required reports have been properly filed.
 - (b) Management is responsible for the accuracy and propriety of those reports.
 - (c) All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payers.
 - (d) The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.
 - (e) All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.
 - (f) Recorded third-party settlements include differences between filed (and to be filed) cost reports and calculated settlements, which are necessary based upon historical experience or new or ambiguous regulations that may be subject to differing interpretations. While management believes the Company is entitled to all the amounts claimed on the cost reports, management also believes the amounts of these differences are appropriate.

29. We acknowledge the current protracted economic decline continues to present difficult circumstances and challenges for the health care industry. Hospital districts are facing declines in the fair values of investments and other assets, declines in contributions, constraints on liquidity and difficulty obtaining financing. We understand the values of the assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments to asset values, allowances for accounts receivable, etc. that could negatively impact the District's ability to maintain sufficient liquidity. We acknowledge that you have no responsibility for future changes caused by the current economic environment and the resulting impact on the District's financial statements. Further, management and the Board are solely responsible for all aspects of managing the District, including questioning the quality and valuation of investments and other assets, evaluating assumptions regarding defined benefit pension plan obligations, reviewing allowances for uncollectible amounts and evaluating capital needs and liquidity plans.
30. Our federal awards did not exceed \$750,000 in 2020 and we do not believe we are subject to the audit requirement to OMB Circular A-133 in 2020.
31. The District intends to hold all investments until maturity. Accordingly, investments maturing prior to August 31, 2021 are appropriately classified as "current" and investments maturing subsequent to August 31, 2021 are appropriately classified as "long-term" in the financial statements.
32. With regards to our loan obtained under the Paycheck Protection Program (PPP), dated May 7, 2020, we represent the following:
 - (a) The District, when considered together with all of its affiliates (using the affiliate determinations required by the PPP), had fewer than 500 employees at the date of the loan application.
 - i. In addition, we have determined the number of full-time equivalent employees on payroll (at the time of the application) in a manner that is consistent with the clarification guidance released by the Small Business Administration.
 - (b) During the period beginning on February 15, 2020, and ending on December 31, 2020, we have not received more than one loan under the Paycheck Protection Program. In addition, we have confirmed with our affiliated entities (using the affiliate determinations required by the PPP) that the total of any PPP loans received by us and by those affiliates does not exceed \$20 million in the aggregate.
 - (c) We have not used the proceeds from the PPP loan for expenditures that were covered by other funding sources, *i.e.*, government grants or contracts.



Alma Martinez, CEO



Nestor Bonilla, CFO

Maverick County Hospital District

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" and "Schedule of Uncorrected Misstatements (Notes to the Financial Statements)" reflect the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE AND QUALITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	13,955,651	(20,000)	13,935,651	-0.14%
Non-Current Assets	8,359,050	0	8,359,050	0.00%
Current Liabilities	(1,738,130)	(69,425)	(1,807,555)	3.99%
Non-Current Liabilities	(610,176)	0	(610,176)	0.00%
Current Ratio	8.03		7.71	-3.97%
Total Assets	22,314,701	(20,000)	22,294,701	-0.09%
Total Liabilities	(2,348,306)	(69,425)	(2,417,731)	2.96%
Net Position	(19,966,395)	89,425	(19,876,970)	-0.45%
Revenues & Income	(12,659,536)	(15,822)	(12,675,358)	0.12%
Costs & Expenses	14,909,933	69,425	14,979,358	0.47%
Change in Net Position	2,250,397	53,603	2,304,000	2.38%

Misstatements within Notes to the Financial Statements

Description	Location or Business Unit	Financial Line Item	Factual (F), Judgmental (J) or Projected (P)	Assets				Liabilities				(X) Non Tax	Revenues & Income		Costs & Expenses		Net Position		Net Effect on Following Year					
				Current		Noncurrent		Current		Noncurrent			DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)
				DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)		DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)	DR	(CR)
Turnaround effect of prior year passed adjustments	MCHD		F	0	0	0	0					(35,822)	0	35,822			0	0	0	0	0	0		
		Other Revenue										(35,822)									N/A	N/A		
		Net Position												35,822							N/A	N/A		
To decrease the 340B receivable to be in line with payments received subsequent to year end.	MCHD		F	(20,000)	0	0	0					20,000	0	0							(20,000)	20,000		
		Other Revenue										20,000									(20,000)	20,000		
		Other Receivables, Net		(20,000)																				
To increase payroll accrual to be in line with BKD's estimate	MCHD		F	0	0	(69,425)	0					0	69,425	0							(69,425)	69,425		
		Salary Expense											69,425								(69,425)	69,425		
		Accrued Payroll				(69,425)																		
Taxable passed adjustments											(15,822)	69,425	35,822	(69,425)	89,425									
Times (1 - effective tax rate of 00%)											100%	100%	100%											
Taxable passed adjustments net of tax impact											(15,822)	69,425	35,822											
Nontaxable passed adjustments											0	0	0											
Total passed adjustments, net of tax impact (if any)											(15,822)	69,425	35,822											
											Impact on Change in Net Position		53,603											
											Impact on Net Position		89,425											