

**DeWitt Medical District**  
**d/b/a Cuero Regional Hospital**  
Independent Auditor's Report and Financial Statements  
September 30, 2021 and 2020

**DeWitt Medical District**  
**d/b/a Cuero Regional Hospital**  
**September 30, 2021 and 2020**

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## Independent Auditor's Report

Board of Directors  
DeWitt Medical District  
d/b/a Cuero Regional Hospital  
Cuero, Texas

We have audited the accompanying financial statements of DeWitt Medical District d/b/a Cuero Regional Hospital (the District), as of and for the years ended September 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### ***Management's Responsibility for the Financial Statements***

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

### ***Auditor's Responsibility***

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

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

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

### ***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Other Matters***

#### ***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### ***Other Information***

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The other information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other information has not been subjected to the auditing procedures applied by us in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

**BKD, LLP**

Waco, Texas  
April 25, 2022

# **DeWitt Medical District d/b/a Cuero Regional Hospital Management's Discussion and Analysis September 30, 2021 and 2020**

## ***Introduction***

This management's discussion and analysis of the financial performance of DeWitt Medical District d/b/a Cuero Regional Hospital (the District) provides an overview of the District's financial activities for the years ended September 30, 2021 and 2020. It should be read in conjunction with the accompanying financial statements of the District.

## ***Financial Highlights***

- Cash and cash equivalents and investments increased in 2021 by \$8,837,362, or 23.7%, and increased in 2020 by \$11,443,526, or 44.2%.
- The District's net position increased in 2021 by \$13,421,282, or 22.1%, and increased in 2020 by \$7,856,480, or 14.9%.
- The District reported an operating loss in 2021 of \$7,280,845 and an operating income in 2020 of \$1,083,550. The operating loss in 2021 decreased by \$8,364,395, or 771.9%, over the operating income reported in 2020. The operating income in 2020 increased by \$101,695, or 10.4%, from the operating income reported in 2019.
- Net nonoperating revenues increased by \$10,911,497, or 161.10%, in 2021 compared to 2020 and increased by \$1,872,420, or 38.21%, in 2020 compared to 2019.

## ***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 and all liabilities 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 them. The District's total net position—the difference between assets and liabilities—is one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position is 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***

The District's net position is the difference between its assets and liabilities reported in the balance sheets. The District's net position increased by \$13,421,282, or 22.1%, in 2021 from 2020 and increased by \$7,856,480, or 14.9% in 2020 over 2019, as shown in Table 1.

***Table 1: Assets, Liabilities and Net Position***

	2021	2020	2019
<b>Assets</b>			
Cash and cash equivalents	\$ 23,089,299	\$ 18,682,980	\$ 11,833,397
Patient accounts receivable, net	13,712,143	10,767,305	9,213,781
Other assets	18,981,868	27,207,592	12,819,257
Capital assets, net	21,904,193	21,797,224	20,443,334
Noncurrent cash and investments	23,053,968	18,622,925	14,028,982
Total assets	<u>\$ 100,741,471</u>	<u>\$ 97,078,026</u>	<u>\$ 68,338,751</u>
<b>Liabilities</b>			
Long-term debt, including current maturities	\$ 1,231,226	\$ 4,632,245	\$ 1,958,509
Other current liabilities	25,381,869	31,738,687	13,529,628
Total liabilities	<u>26,613,095</u>	<u>36,370,932</u>	<u>15,488,137</u>
<b>Net Position</b>			
Net investment in capital assets	20,629,374	20,182,679	18,484,825
Unrestricted	53,499,002	40,524,415	34,365,789
Total net position	<u>74,128,376</u>	<u>60,707,094</u>	<u>52,850,614</u>
Total liabilities and net position	<u>\$ 100,741,471</u>	<u>\$ 97,078,026</u>	<u>\$ 68,338,751</u>

For 2021, cash and investments increased due primarily to the positive change in net position. Other assets and other current liabilities decreased primarily due to the recognition of Provider Relief Fund (PRF) revenue and the related prepaid nursing facility management fees. Additionally, long-term debt decreased due to forgiveness of the PPP loan. These items are discussed further in *Note 14*.

For 2020, cash and investments and prepaid expenses increased due primarily due to PRF receipts and proceeds from the Paycheck Protection Program (PPP) loan which also resulted in the increase in current liabilities for PRF received in advance and debt related to the PPP loan. Additionally, the nursing home managers received funds from the Medicare Accelerated and Advanced Payment Program which increased estimated amounts due to third party payers and prepaid expense. These items are discussed further in *Note 14*.

### ***Operating Results and Changes in the District's Net Position***

In 2021, the District's change in net position increased by \$5,564,802, or 70.8%, over 2020 as shown in Table 2. In 2020, the District's change in net position increased by \$1,974,115, or 33.6%, over 2019.

**Table 2: Operating Results and Changes in Net Position**

	2021	2020	2019
<b>Operating Revenues</b>			
Net patient service revenue	\$ 36,788,494	\$ 34,362,684	\$ 35,526,288
Nursing home patient revenue	147,419,647	131,787,158	107,949,469
Other operating revenues	2,819,242	3,199,315	2,842,173
Total operating revenues	187,027,383	169,349,157	146,317,930
<b>Operating Expenses</b>			
Salaries, wages and employee benefits	22,744,586	21,185,174	20,699,437
Purchased services and professional fees	7,877,144	7,728,392	6,983,174
Depreciation	2,562,739	2,418,699	2,050,295
Nursing home management fees and expenses	151,238,128	127,910,316	105,400,000
Other operating expenses	9,885,631	9,023,026	10,203,169
Total operating expenses	194,308,228	168,265,607	145,336,075
<b>Operating Income (Loss)</b>	(7,280,845)	1,083,550	981,855
<b>Nonoperating Revenues (Expenses)</b>			
Property taxes	4,368,428	4,350,543	4,414,084
Investment return	157,900	381,668	377,149
Interest expense	(41,662)	(49,040)	(822)
Gain on disposal of equipment	93,600	-	60,466
Noncapital grants and contributions	13,106,161	2,089,759	49,633
Total nonoperating revenues	17,684,427	6,772,930	4,900,510
<b>Income Before Special Item</b>	10,403,582	7,856,480	5,882,365
<b>Special Item</b>	3,017,700	-	-
<b>Increase in Net Position</b>	\$ 13,421,282	\$ 7,856,480	\$ 5,882,365

**Operating Income (Loss)**

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. The 2021 operating loss represents a decline from the District's operating history. The District was formed and is operated primarily to serve residents of DeWitt 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 2021 decreased by \$8,364,395, or 771.9% from the operating income for 2020. The primary components of the decreased operating loss are:

- An increase nursing home management fees and expenses of \$23,327,812, or 18.2%, primarily related to increased costs during the pandemic. The additional management fees is offset by grants and contributions recognized outside of operating income.

The operating income for 2020 improved by \$101,695, or 10.4% from the operating income for 2019. The primary components of the increased operating income are:

- A decrease in net patient service revenue of \$1,163,604, or 3.3%, primarily due to decreased volume due to the pandemic environment and the CHAT settlement.
- An increase in salaries, wages and employee benefits of \$485,737, or 2.3%, due to the increase in workforce to handle the COVID-19 pandemic.

### ***Nonoperating Revenues and Expenses***

Nonoperating revenues and expenses primarily consist of property taxes levied by the District, investment return, interest expense and noncapital grants and gifts. Overall, nonoperating revenue during 2021 increased \$10,911,497, or 161.10%, as compared to 2020 primarily due to recognition of Provider Relief Fund receipts as discussed further in *Note 14*.

Nonoperating revenues increased \$1,872,420, or 38.2%, during 2020 from 2019, primarily due to recognition of Provider Relief Fund receipts as discussed further in *Note 14*.

### ***The District's Cash Flows***

Changes in the District's cash flows are consistent with changes in balance sheet amounts, operating losses and nonoperating revenues and expenses for 2021, 2020, and 2019 as discussed earlier.

### ***Capital Assets and Debt Administration***

#### **Capital Assets**

At the end of 2021 and 2020, the District had \$21,904,193 and \$21,797,224, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2021 and 2020, the District added equipment with a costs of approximately \$2,793,000 and \$3,773,000, respectively.

#### **Debt**

At the end of 2021 and 2020, the District had \$1,231,226 and \$4,632,245 of outstanding debt obligations. More detailed information about the District's long-term debt is presented in *Note 8* of the financial statements. The District's formal debt issuances are subject to limitations imposed by state law.

### ***Contacting the District's Financial Management***

This financial report is designed to provide the District's 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 Chief Financial Officer at DeWitt Medical District, 2550 North Esplanade Street, Cuero, Texas 77954.

**DeWitt Medical District  
d/b/a Cuero Regional Hospital**  
**Balance Sheets**  
**September 30, 2021 and 2020**

**Assets**

	<b>2021</b>	<b>2020</b>
<b>Current Assets</b>		
Cash	\$ 22,246,168	\$ 17,844,877
Cash designated for employee benefits	843,131	838,103
Patient accounts receivable, net of allowance; 2021 - \$9,207,000, 2020 - \$8,502,000	13,712,143	10,767,305
Estimated amounts due from third-party payers	10,261,473	8,840,232
Property taxes receivable	4,353,782	4,353,782
Supplies	993,690	771,705
Prepaid expenses and other	2,971,007	12,771,904
	<hr/>	<hr/>
Total current assets	55,381,394	56,187,908
	<hr/>	<hr/>
<b>Noncurrent Cash and Equivalents</b>		
Designated for capital acquisition	23,053,968	18,622,925
	<hr/>	<hr/>
<b>Capital Assets, Net</b>	21,904,193	21,797,224
	<hr/>	<hr/>
<b>Other Assets</b>	401,916	469,969
	<hr/>	<hr/>
	<hr/>	<hr/>
Total assets	<u>\$ 100,741,471</u>	<u>\$ 97,078,026</u>

*See Notes to Financial Statements*

## Liabilities and Net Position

	2021	2020
<b>Current Liabilities</b>		
Current maturities of long-term debt	\$ 391,051	\$ 2,217,175
Accounts payable	15,470,304	10,239,019
Provider Relief Fund received in advance	2,738,186	12,917,158
Estimated amounts due to third party payers - current	1,736,004	4,816,345
Accrued expenses	5,437,375	3,281,165
Total current liabilities	25,772,920	33,470,862
<b>Long-term Debt</b>	840,175	2,415,070
<b>Estimated Amounts Due to Third Party Payers</b>	-	485,000
Total liabilities	26,613,095	36,370,932
<b>Net Position</b>		
Net investment in capital assets	20,629,374	20,182,679
Unrestricted	53,499,002	40,524,415
Total net position	74,128,376	60,707,094
Total liabilities and net position	\$ 100,741,471	\$ 97,078,026

**DeWitt Medical District  
d/b/a Cuero Regional Hospital**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended September 30, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>Operating Revenues</b>		
Net patient service revenue, net of provision for uncollectible accounts; 2021 - \$10,425,000, 2020 - \$6,910,000	\$ 36,788,494	\$ 34,362,684
Nursing home patient revenue	147,419,647	131,787,158
Other	2,819,242	3,199,315
	<hr/>	<hr/>
Total operating revenues	187,027,383	169,349,157
	<hr/>	<hr/>
<b>Operating Expenses</b>		
Salaries and wages	17,633,381	16,752,705
Employee benefits	5,111,205	4,432,469
Purchased services and professional fees	7,877,144	7,728,392
Supplies and other	9,646,425	8,796,441
Nursing home management fees and expenses	151,238,128	127,910,316
Insurance	239,206	226,585
Depreciation and amortization	2,562,739	2,418,699
	<hr/>	<hr/>
Total operating expenses	194,308,228	168,265,607
	<hr/>	<hr/>
<b>Operating Income (Loss)</b>	(7,280,845)	1,083,550
	<hr/>	<hr/>
<b>Nonoperating Revenues (Expenses)</b>		
Property taxes	4,368,428	4,350,543
Investment return	157,900	381,668
Interest expense	(41,662)	(49,040)
Gain on disposal of equipment	93,600	-
Noncapital grants and contributions	13,106,161	2,089,759
	<hr/>	<hr/>
Total nonoperating revenues	17,684,427	6,772,930
	<hr/>	<hr/>
<b>Income Before Special Item</b>	10,403,582	7,856,480
	<hr/>	<hr/>
<b>Special Item - Forgiveness of debt</b>	3,017,700	-
	<hr/>	<hr/>
<b>Increase in Net Position</b>	13,421,282	7,856,480
	<hr/>	<hr/>
<b>Net Position, Beginning of Year</b>	60,707,094	52,850,614
	<hr/>	<hr/>
<b>Net Position, End of Year</b>	\$ 74,128,376	\$ 60,707,094
	<hr/>	<hr/>

**DeWitt Medical District  
d/b/a Cuero Regional Hospital  
Statements of Cash Flows  
Years Ended September 30, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>Operating Activities</b>		
Receipts from and on behalf of patients	\$ 176,276,721	\$ 167,782,622
Payments to suppliers and contractors	(154,234,299)	(156,655,610)
Payments to or on behalf of employees	(20,588,376)	(21,281,607)
Other receipts from operations	2,887,295	3,070,509
Net cash provided by (used in) operating activities	4,341,341	(7,084,086)
<b>Noncapital Financing Activities</b>		
Property taxes supporting operations	4,368,428	4,350,543
Proceeds from issuance of paycheck protection program loan	-	3,017,700
Proceeds from Provider Relief Funds	2,808,690	14,823,076
Noncapital grants and gifts	118,499	183,841
Net cash provided by noncapital financing activities	7,295,617	22,375,160
<b>Capital and Related Financing Activities</b>		
Principal paid on long-term debt	(383,319)	(343,964)
Interest paid on long-term debt	(41,662)	(49,040)
Proceeds from insurance	217,203	-
Purchase of capital assets	(2,749,718)	(3,836,212)
Net cash used in capital and related financing activities	(2,957,496)	(4,229,216)
<b>Investing Activities</b>		
Investment return	157,900	381,668
Net cash provided by investing activities	157,900	381,668
<b>Increase in Cash and Cash Equivalents</b>	8,837,362	11,443,526
<b>Cash and Cash Equivalents, Beginning of Year</b>	37,305,905	25,862,379
<b>Cash and Cash Equivalents, End of Year</b>	\$ 46,143,267	\$ 37,305,905

**DeWitt Medical District**  
**d/b/a Cuero Regional Hospital**  
**Statements of Cash Flows (Continued)**  
**Years Ended September 30, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>Reconciliation of Cash and Cash Equivalents to the Balance Sheets</b>		
Cash in current assets	\$ 23,089,299	\$ 18,682,980
Cash noncurrent cash and equivalents	23,053,968	18,622,925
	<hr/>	<hr/>
Total cash and cash equivalents	<u>\$ 46,143,267</u>	<u>\$ 37,305,905</u>
<b>Reconciliation of Operating Income (Loss) to</b>		
<b>Net Cash Provided by (Used in) Operating Activities</b>		
Operating income (loss)	\$ (7,280,845)	\$ 1,083,550
Depreciation and amortization	2,562,739	2,418,699
Provision for uncollectible accounts	10,425,024	6,910,012
Changes in operating assets and liabilities		
Patient accounts receivable, net	(13,369,862)	(8,463,536)
Estimated amounts due to/from third-party payers	(4,986,582)	3,186,304
Accounts payable and accrued expenses	7,343,902	54,179
Other assets and liabilities	9,646,965	(12,273,294)
	<hr/>	<hr/>
Net cash provided by (used in) operating activities	<u>\$ 4,341,341</u>	<u>\$ (7,084,086)</u>
<b>Supplemental Cash Flows Information</b>		
Capital asset acquisitions included in accounts payable	\$ 43,593	\$ -
Forgiveness of debt	\$ 3,017,700	\$ -

**DeWitt Medical District  
d/b/a Cuero Regional Hospital  
Notes to Financial Statements  
September 30, 2021 and 2020**

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

***Nature of Operations and Reporting Entity***

DeWitt Medical District d/b/a Cuero Regional Hospital (the District) is an acute care hospital located in Cuero, Texas. The District is a political subdivision created by, and operating under, the laws of the state of Texas. The District is administered through a five-member board of directors (the Board) elected by qualified voters of the District. The District is a taxing district with property taxes levied on real property within the District. The District primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the DeWitt County area. It also operates a home health agency in the same geographic 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 and liabilities 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, investment income and interest on capital assets-related debt 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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

***Property Taxes***

The District received approximately 2% and 3% of its financial support from property taxes in 2021 and 2020, respectively. These funds were used to support operations.



**DeWitt Medical District  
d/b/a Cuero Regional Hospital  
Notes to Financial Statements  
September 30, 2021 and 2020**

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. The District has determined that this is the date on which an enforceable legal claim arises and records a receivable for the property tax assessment, less an allowance for uncollectible taxes. Property taxes become due and payable when levied on October 1 and are considered delinquent after January 31 of the following year. Revenue from property taxes is recognized in the year for which the taxes are levied.

The District's property tax rate was \$0.288560 and \$0.222680 per \$100 of property value for 2021 and 2020, respectively. The District recognized \$4,368,428 and \$4,350,543 in property tax revenue in 2021 and 2020, 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; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The District is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

***Investments and Investment Income***

Investments in external investment pools are carried at fair value per share based on net asset value. All other investments are carried at fair value.

Investment income includes interest income 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.

**DeWitt Medical District  
d/b/a Cuero Regional Hospital  
Notes to Financial Statements  
September 30, 2021 and 2020**

***Supplies***

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

***Capital Assets***

Capital assets are recorded at cost at the date of acquisition, or acquisition 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. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the District:

Land improvements	10–20 years
Buildings and improvements	5–50 years
Equipment	3–10 years

***Compensated Absences***

The District's 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 are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments, such as social security and Medicare taxes computed using rates in effect at that date.

***Net Position***

Net position of the District is classified in two 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. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

**DeWitt Medical District  
d/b/a Cuero Regional Hospital  
Notes to Financial Statements  
September 30, 2021 and 2020**

***Net Patient Service Revenue***

The District has agreements with third-party payers that provide for payments to the District at amounts different from its 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 includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

***Charity Care***

The District provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the District does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

***Income Taxes***

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

***Foundation***

The District is the beneficiary of DeWitt Medical Foundation (the Foundation), a separate legal entity with a separate board of trustees. The Foundation has legal title to all of the Foundation's assets. The Foundation is not a component unit of the District and, thus, is not reflected in the accompanying financial statements. Contributions received from the Foundation were not significant for 2021 or 2020.

***Other Assets***

The District has joined together with other providers of health care services to form the Texas Hospital Insurance Exchange, a risk pool (the Pool) currently operating as a common risk management and insurance program for its members as discussed in *Note 6*. The balance of the surplus amount from the Pool is included in other assets in the accompanying balance sheets and is approximately \$267,000 and \$271,000 at September 30, 2021 and 2020, respectively.

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**Note 2: Net Patient Service Revenue**

The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. These payment arrangements include:

*Medicare.* Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The District is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor.

*Medicaid.* Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at prospectively determined rates. The District is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid administrative contractor.

Approximately 63% and 68% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2021 and 2020, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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.

***Medicaid Supplemental Payment Programs***

Net patient service revenue includes funding from the Medicaid Disproportionate Share Program (DSH). The amounts the District may expect to receive from this program has been impacted by the Medicaid section 1115(a) demonstration program discussed below and historical funding is not necessarily funding the District can expect to receive in the future. The revenue from the two funding pools is recognized as earned throughout the related demonstration year.

On December 12, 2011, the United States Department of Health and Human Services (HHSC) approved a Medicaid Section 1115(a) demonstration entitled “Texas Health Transformation and Quality Improvement Program” (Waiver). The Waiver expanded existing Medicaid managed care programs and established two funding pools that assist providers with uncompensated care costs (UC Pool) and promote health system transformation (DSRIP Pool). The District participates in the UC Pool but does not participate in the DSRIP Pool. The revenue from the UC funding pool is recognized as earned throughout the related demonstration year.

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The Waiver was originally effective from December 12, 2011 to September 30, 2016 and extended through December 2017 as the Texas Health and Human Services Commission (HHSC) and CMS negotiated a longer-term extension. On December 21, 2017, HHSC received an approved extension from CMS for the period of January 1, 2018 through September 30, 2022. Among other changes, the approved plan required a change in the methodology used to allocate UC funds and a phase out of the DSRIP program over the five-year period.

On January 15, 2021, CMS approved an extension to the Waiver for an additional ten-year period through September 30, 2030. This latest extension would have ended the DSRIP pool effective September 30, 2021, expanded and added other direct payment programs and made other administrative changes to reflect CMS policy changes beginning September 1, 2021. On April 16, 2021, CMS rescinded the extension approval citing an improper exemption from the public notice and comment process originally granted. On March 25, 2022, CMS approved certain directed payment programs, including the Comprehensive Hospital Increased Reimbursement Program (CHIRP), for the period of September 1, 2021 - August 31, 2022. CHIRP replaces and expands the funding pool available under UHRIP. On April 22, 2022, CMS rescinded its April 16, 2021 letter, effectively approving the Waiver extension through September 30, 2032. The District has not yet determined the financial impact of the Waiver extension or CHIRP.

Under the Waiver, eligibility to receive UC Pool or DSRIP Pool payments requires participation in a regional health care partnership. Within a partnership, participants include governmental entities providing public funds known as intergovernmental transfers (IGTs), Medicaid providers and other stakeholders. Participants develop a regional plan that identifies partners, community needs, the proposed projects to meet those needs and funding distribution. Each partnership must have one anchoring entity, which acts as a primary point of contact for HHSC in the region and is responsible for seeking regional stakeholder engagement and coordinating development of a regional plan.

Total revenue recognized from these programs was approximately \$770,000 and \$171,000, net of the impact of the estimated repayment discussed below, for the years ended September 30, 2021 and 2020, respectively, and is included as net patient service revenue in the accompanying statements of revenues, expenses and changes in net position.

The funding from the UC Pool has historically been limited by a federally determined Hospital Specific Limit (HSL) calculation and is subject to recoupment based on subsequent audit results. There has been significant litigation in the U.S. District (District Court) and circuit appellate courts regarding the legislative intent of certain aspects of the HSL calculation. On August 13, 2019, the D.C. Circuit Court of Appeals issued an opinion in the case of *Children's Hospital Association of Texas vs. Azar* that held that the HSL should be reduced by payments received from other third-party payers related to Medicaid eligible patients and remanded the case back to the District Court. The District Court's final ruling on this case was issued in November 2020, and hospitals in Texas lost the challenge to the HHS ruling which was reinstated back to the rule's original 2017 effective date. The District recorded an expected overpayment related to this ruling of approximately \$1,736,000 and \$818,000 as of September 30, 2021 and 2020, respectively, included in estimated

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amounts due to third-party payers on the balance sheet and included in net patient service revenue on the statements of revenues, expenses, and changes in net position.

In 2018, the District began to participate in the Uniform Hospital Rate Increase Program (UHRIP). Under UHRIP, HHSC may direct managed care organizations at a service delivery area to provide a uniform percentage rate increase to all hospitals within a particular class of hospitals, increasing revenue from services provided to Medicaid managed care beneficiaries. The state's share of UHRIP funding is funded through intergovernmental transfers from certain hospitals. The net revenue from UHRIP is recognized as a component of net patient service revenue. The UHRIP program ended on August 31, 2021 and has yet to be extended. As discussed above, UHRIP has been replaced by CHIRP beginning September 1, 2021. At September 30, 2021 and 2020, the District recorded an estimated receivables under these programs of approximately \$273,000 and \$284,000, respectively, and is included in estimated amounts due from third-party payers in the balance sheet.

The District also participates in Quality Improvement Payment Program (QIPP). This program was designed to assist nursing facilities serving indigent patients by providing funding to support increased access to health care within the community. QIPP allows participating providers to receive additional reimbursement if they either reach certain national benchmarks or if they make quarterly improvements in up to four predetermined quality measures. Revenue recognized under this program (net of any intergovernmental transfer payments) was approximately \$6,850,000 and \$8,000,000 for the years ending September 30, 2021 and 2020, respectively, and is included in nursing home patient revenue in the statements of revenues, expenses, and changes in net position.

The programs described above are subject to review and scrutiny by both the Texas Legislature and CMS and the programs could be modified or terminated based on new legislation or regulation in future periods. The funding received is also subject to audit by the Medicaid Administrative Contractor. As a result, it is reasonably possible that recorded estimates could change materially in the near term.

**Note 3: Deposits, Investments 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 September 30, 2021 and 2020, the District's deposits were either insured or collateralized in accordance with state law.

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**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, obligations of certain states, and their political subdivisions, qualified investment pools and bank repurchase agreements. It may also invest to a limited extent in corporate bonds and equity securities.

At September 30, 2021 and 2020, the District had the following investments and maturities:

<b>September 30, 2021</b>					
<b>Type</b>	<b>Fair Value</b>	<b>Maturities in Years</b>			
		<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More Than 10</b>
External investment pools	\$ 90,451	\$ 90,451	\$ -	\$ -	\$ -
Money market mutual funds	1,998,021	1,998,021	-	-	-
	<u>\$ 2,088,473</u>	<u>\$ 2,088,473</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
<b>September 30, 2020</b>					
<b>Type</b>	<b>Fair Value</b>	<b>Maturities in Years</b>			
		<b>Less Than 1</b>	<b>1-5</b>	<b>6-10</b>	<b>More Than 10</b>
External investment pools	\$ 90,361	\$ 90,361	\$ -	\$ -	\$ -
Money market mutual funds	1,997,408	1,997,408	-	-	-
	<u>\$ 2,087,769</u>	<u>\$ 2,087,769</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</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 limits its investment portfolio to maturities of less than three years. The external investment pools and money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2021, the District's investments in external investment pools and money market mutual funds were rated "AAA" by Standard & Poor's.

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**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. The District's investments in external investment pools are not classified by custodial credit risk category as they are not evidenced by securities that exist in physical or book-entry form.

**Concentration of Credit Risk** - The District places no limit on the amount that may be invested in any one issuer as long as the restrictions of the Texas Public Funds Investment Act are followed.

The table below reflects the District's investments in single issuers that represent more than five percent of total investments.

	<u>2021</u>	<u>2020</u>
Wells Fargo Government Money Market Mutual Fund	96%	96%

**Fair Value of Assets and Liabilities** – 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 market 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.

The following are the fair value measurements of assets recognized in the accompanying financial statements measured at fair value on a recurring basis and the fair value hierarchy in which the fair value measurements fall at September 30, 2021 and 2020:

- External investment pools of \$90,451 and \$90,361 at September 30, 2021 and 2020, respectively, are valued at amortized value per share and are not classified in the hierarchy;
- Money market mutual funds of \$1,998,021 and \$1,997,408 at September 30, 2021 and 2020, respectively, are valued using quoted market prices (Level 1 inputs).



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***Summary of Carrying Values***

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

	<b>2021</b>	<b>2020</b>
Carrying value		
Deposits	\$ 44,054,794	\$ 35,218,136
Investments	<u>2,088,473</u>	<u>2,087,769</u>
	<u><u>\$ 46,143,267</u></u>	<u><u>\$ 37,305,905</u></u>
Included in the following balance sheet captions		
Cash	\$ 22,246,168	\$ 17,844,877
Cash designated for employee benefits	843,131	838,103
Noncurrent cash	<u>23,053,968</u>	<u>18,622,925</u>
	<u><u>\$ 46,143,267</u></u>	<u><u>\$ 37,305,905</u></u>

***Investment Income***

Investment income for the years ended September 30 consisted of:

	<b>2021</b>	<b>2020</b>
Interest and dividend income	<u>\$ 157,900</u>	<u>\$ 381,668</u>

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**Note 4: Patient Accounts Receivable**

The District grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at September 30 consisted of:

	<b>2021</b>	<b>2020</b>
<b><u>Hospital</u></b>		
Medicare	\$ 914,278	\$ 661,253
Medicaid	332,035	69,715
Other third-party payers	1,911,478	1,878,647
Patients	<u>3,880,704</u>	<u>2,803,555</u>
	7,038,495	5,413,170
<b><u>Nursing homes</u></b>		
Medicare	2,125,917	3,340,121
Medicaid	2,621,698	1,666,645
Other payers	<u>11,133,274</u>	<u>8,849,341</u>
	15,880,889	13,856,107
Less allowance for uncollectible accounts	<u>9,207,241</u>	<u>8,501,972</u>
	<u><u>\$ 13,712,143</u></u>	<u><u>\$ 10,767,305</u></u>

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**Note 5: Capital Assets**

Capital assets activity for the years ended September 30 was:

<b>2021</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 428,575	\$ -	\$ -	\$ -	\$ 428,575
Land improvements	710,565	-	-	-	710,565
Buildings and improvements	21,795,875	260,565	(105,234)	-	21,951,206
Equipment	34,381,714	1,392,419	(235,475)	821,005	36,359,663
Construction in progress	836,118	1,140,327	-	(821,005)	1,155,440
	<u>58,152,847</u>	<u>2,793,311</u>	<u>(340,709)</u>	<u>-</u>	<u>60,605,449</u>
Less accumulated depreciation					
Land improvements	(602,329)	(3,338)	-	-	(605,667)
Buildings and improvements	(10,513,497)	(758,322)	105,234	-	(11,166,585)
Equipment	(25,239,797)	(1,801,079)	111,872	-	(26,929,004)
	<u>(36,355,623)</u>	<u>(2,562,739)</u>	<u>217,106</u>	<u>-</u>	<u>(38,701,256)</u>
Capital assets, net	<u>\$ 21,797,224</u>	<u>\$ 230,572</u>	<u>\$ (123,603)</u>	<u>\$ -</u>	<u>\$ 21,904,193</u>
<b>2020</b>					
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Disposals</b>	<b>Transfers</b>	<b>Ending Balance</b>
Land	\$ 428,575	\$ -	\$ -	\$ -	\$ 428,575
Land improvements	767,924	-	(26,740)	(30,619)	710,565
Buildings and improvements	22,645,123	-	-	(849,248)	21,795,875
Equipment	30,109,602	2,945,913	-	1,326,199	34,381,714
Construction in progress	455,774	826,676	-	(446,332)	836,118
	<u>54,406,998</u>	<u>3,772,589</u>	<u>(26,740)</u>	<u>-</u>	<u>58,152,847</u>
Less accumulated depreciation					
Land improvements	(567,958)	(61,111)	26,740	-	(602,329)
Buildings and improvements	(9,755,209)	(758,288)	-	-	(10,513,497)
Equipment	(23,640,497)	(1,599,300)	-	-	(25,239,797)
	<u>(33,963,664)</u>	<u>(2,418,699)</u>	<u>26,740</u>	<u>-</u>	<u>(36,355,623)</u>
Capital assets, net	<u>\$ 20,443,334</u>	<u>\$ 1,353,890</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 21,797,224</u>

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**Note 6: Medical Malpractice Claims**

The District is a unit of government covered by the Texas Tort Claims Act, which, by statute, limits its liability to \$100,000 per person/\$300,000 per occurrence. These limits coincide with the malpractice insurance coverage maintained by the District. The District has joined together with other providers of health care services to form the Texas Hospital Insurance Exchange, a risk pool (the Pool) currently operating as a common risk management and insurance program for its members. The District purchases medical malpractice insurance from the Pool under a claims-made policy. The District pays an annual premium to the Pool for its torts insurance coverage. The Pool's governing agreement specifies that the Pool will be self-sustaining through member premiums and will reinsure through commercial carriers for claims in excess of stop-loss amounts. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim 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.

**Note 7: Employee Health Claims**

Substantially all of the District's employees and their dependents are eligible to participate in the District's employee health insurance plan. The District is partially self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$80,000 per individual. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims, including both claims reported and claims incurred but not yet reported and is included in accrued expenses in the accompanying balance sheets at September 30, 2021 and 2020. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims, and other economic and social factors. It is reasonably possible that the District's estimate will change by a material amount in the near term.

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Activity in the District's accrued employee health claims liability during 2021 and 2020 is summarized as follows:

	<b>2021</b>	<b>2020</b>
Balance, beginning of year	\$ 536,178	\$ 423,436
Current year claims incurred and changes in estimates for claims incurred in prior years	3,243,326	2,449,449
Claims and expenses paid	<u>(3,181,687)</u>	<u>(2,336,707)</u>
Balance, end of year	<u><u>\$ 597,817</u></u>	<u><u>\$ 536,178</u></u>

**Note 8: Long-term Obligations**

The following is a summary of long-term obligation transactions for the District for the years ended September 30:

	<b>2021</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt:					
Financing agreement	\$ 1,614,545	\$ -	\$ (383,319)	\$ 1,231,226	\$ 391,051
PPP Loan	<u>3,017,700</u>	<u>-</u>	<u>(3,017,700)</u>	<u>-</u>	<u>-</u>
Total long-term debt	<u><u>\$ 4,632,245</u></u>	<u><u>\$ -</u></u>	<u><u>\$ (3,401,019)</u></u>	<u><u>\$ 1,231,226</u></u>	<u><u>\$ 391,051</u></u>
	<b>2020</b>				
	<b>Beginning Balance</b>	<b>Additions</b>	<b>Deductions</b>	<b>Ending Balance</b>	<b>Current Portion</b>
Long-term debt:					
Financing agreement	\$ 1,958,509	\$ -	\$ (343,964)	\$ 1,614,545	\$ 383,325
PPP Loan	<u>-</u>	<u>3,017,700</u>	<u>-</u>	<u>3,017,700</u>	<u>1,833,850</u>
Total long-term debt	<u><u>\$ 1,958,509</u></u>	<u><u>\$ 3,017,700</u></u>	<u><u>\$ (343,964)</u></u>	<u><u>\$ 4,632,245</u></u>	<u><u>\$ 2,217,175</u></u>

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***Paycheck Protection Program Loan***

During May 2020, the District obtained a loan under the paycheck protection program (PPP). The PPP loan was originally due May 8, 2022, with monthly principal and interest payments at 1.00% beginning December 2020. The District obtained legal notice of forgiveness of the PPP loan in June 2021 and the forgiveness was recognized as a special item on the statements of revenues, expenses and changes of net position as of September 30, 2021.

***Financing Agreement***

The District entered a financing agreement during 2019 to finance equipment and building improvements. The agreement is collateralized by equipment with principal and interest at 2% payable monthly.

The debt service requirements as of September 30, 2021 are as follows:

<b>Year Ending September 30,</b>	<b>Total to be Paid</b>	<b>Principal</b>	<b>Interest</b>
2022	\$ 412,073	\$ 391,051	\$ 21,022
2023	412,066	398,926	13,140
2024	412,067	406,967	5,100
2025	34,339	34,282	57
	<u>\$ 1,270,545</u>	<u>\$ 1,231,226</u>	<u>\$ 39,319</u>

**Note 9: Charity Care**

In support of its mission, the District voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. The costs of charity care provided under the District's charity care policy were approximately \$1,457,000 and \$1,354,000 for 2021 and 2020, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to gross uncompensated charges.

**Note 10: Designated Cash and Investments**

At September 30, 2021 and 2020, \$23,897,099 and \$19,461,028, respectively, of cash and investments has been designated by the District's Board for capital acquisitions and employee benefits. Designated cash and investments remains under the control of the Board, which may, at its discretion, later use the net position for other purposes.

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**Note 11: Pension Plan**

The District contributes to a defined contribution pension plan (the plan) covering substantially all employees. Pension expense is recorded for the amount of the District's required contributions, determined in accordance with the terms of the plan. The plan is administered by an administrative committee appointed by the District's Board. Participation in the plan is voluntary. The District will contribute an amount that is decided each year of the participant's compensation per year. The sum of participant and District contributions may not exceed federal limits per participant. Employees are immediately 100% vested in their contribution. Employees are 100% vested in the District's contribution after completion of six years of service. Nonvested District contributions are forfeited upon termination of employment, and are used to reduce the District's required contributions. Contribution rates for plan members and the District expressed as a percentage of covered payroll were 4.5% and 6.7% for 2021 and 3.4% and 6.7% for 2020, respectively. Contributions actually made by plan members and the District aggregated \$410,166 and \$611,624 during 2021 and \$296,013 and \$576,539 during 2020, respectively.

**Note 12: Nursing Home Operations**

The District has a series of lease and management agreements with sixteen nursing home operators that resulted in the District becoming the legal operator of the nursing homes. Under the management agreements, the managers provide all services necessary to operate the homes, including employees, supplies and other operating costs. The managers also provide all billing and collection services. All patient revenue from the facilities is paid to the District. From these collections, the District pays the managers for all facility costs and the management fees pursuant to the agreements. The management agreements have initial terms of 1.5-2 years. The District is obligated to pay a base management fee of 5% of ordinary revenue with potential incentive payments of 40-50% of net nursing facility minimum payment amount program income and quality incentive fees of 10% of net nursing facility minimum payment amount program income. However, District payments to the manager are generally limited to the amount of net patient revenue received from the facilities. At its option, the District may pay additional amounts to the manager above the amounts collected for patient revenue.

For 2021 and 2020, total revenues related to these nursing homes were \$147,419,647 and \$131,787,000, respectively, which is included in nursing home patient service revenue on the statements of revenues, expenses and changes in net position. For 2021 and 2020, expenses related to these nursing homes were \$151,238,128 and \$127,910,000, respectively, which is included as nursing home management fees and expenses on the statements of revenues, expenses and changes in net position.

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**Note 13: 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.

The District's pandemic response plan had multiple facets. The District has taken precautionary steps to enhance its operational and financial flexibility, and react to the risks the COVID-19 pandemic presents to its business.

***Provider Relief Fund***

During the years ended September 30, 2021 and 2020, the District received approximately \$2,800,000 and \$14,800,000 of distributions from the CARES Act Provider Relief Fund (PRF) and Rural Health Clinic Testing and Mitigation program. 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).

The District is accounting for such payments as conditional contributions. Payments are recognized as noncapital grants and contributions 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 PRF and the effect of the pandemic on the District's operating revenues and expenses through September 30, 2021 and 2020, the District recognized approximately \$13,000,000 and \$1,900,000, related to the Provider Relief Fund in 2021 and 2020, respectively, and these payments are reported within noncapital grants and contributions in the statements of revenues, expenses, and changes in net position. The unrecognized funds as of September 30, 2021 and 2020 of approximately \$2,700,000 and \$12,900,000, respectively, are reported as Provider Relief Fund received in advance on the balance sheets. Approximately \$10,200,000 of the revenue reported was for the benefit of the nursing facilities. Additionally, as of September 30, 2021 and 2020, approximately \$2,100,000 and \$7,300,000, respectively, of the funds were transferred to the nursing facility managers and are reported as prepaid expenses and other until the related revenue is recognized. Subsequent to September 30, 2021, the District received approximately \$5,179,000 of additional Provider Relief Funds.

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. Provider Relief Fund payments are subject to government oversight, including potential audits.



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Notes to Financial Statements  
September 30, 2021 and 2020**

***Paycheck Protection Program (PPP) 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 Payroll Protection Program (PPP) loans will be forgiven if all employee retention criteria are met and the funds are used for eligible expenses. The District received a PPP loan of \$3,017,700 in May 2020. The District has accounted for the PPP loan in accordance with GASB Statement 62. In June 2021, the loan was legally released and was recognized as a special item on the statements of revenues, expenses and changes in net position as of September 30, 2021. See *Note 8* for additional information.

***Medicare Accelerated and Advanced Payment Program***

During the year ended September 30, 2020, the nursing homes requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to three months of advance Medicare payments for certain health care providers.

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

During the year ended September 30, 2020, the District's nursing homes received approximately \$4,400,000 from these accelerated Medicare payment requests. The unapplied amount of accelerated Medicare payment requests are recorded in estimated amounts due to third-party payors in the accompanying balance sheets and the amounts transferred to the nursing home managers of approximately \$4,400,000 are recorded in prepaid expenses and other in the accompanying balance sheets. As of September 30, 2021, all accelerated Medicare payments have been fully repaid.

## **Other Information**

**Dewitt Medical District**  
**d/b/a Cuero Regional Hospital**  
**Schedule of Detail Changes in Net Position**  
**Years Ended September 30,**

	2018	2019	2020	2021
Inpatient revenue	\$ 17,194,343	\$ 16,325,761	\$ 19,723,069	\$ 21,459,927
Outpatient revenue	50,781,132	55,637,689	61,635,976	73,441,199
Clinic revenue	8,696,041	8,154,492	7,161,897	7,302,206
Nursing home revenue	96,177,248	107,949,469	131,787,158	147,419,647
Home health revenue	1,610,339	1,573,148	1,704,456	1,760,428
Total patient service revenue	174,459,103	189,640,559	222,012,556	251,383,407
Contractual deductions	(35,900,489)	(38,692,494)	(43,488,405)	(53,172,721)
Bad debts and uncollected accounts	(4,769,410)	(4,974,551)	(6,910,012)	(10,425,024)
Charity care	(1,492,056)	(2,050,058)	(3,160,015)	(2,560,123)
Other deductions	(3,838,642)	(2,544,024)	(2,653,909)	(1,993,633)
Disproportionate share and other credits	2,155,289	2,096,325	349,627	976,235
Total deductions from revenues	(43,845,308)	(46,164,802)	(55,862,714)	(67,175,266)
Net patient service revenues	130,613,795	143,475,757	166,149,842	184,208,141
Other revenue	1,873,156	2,842,173	3,199,315	2,819,242
	132,486,951	146,317,930	169,349,157	187,027,383
Salaries	15,706,576	15,984,245	16,752,705	17,633,381
Employee benefits	4,034,585	3,569,528	3,222,509	3,811,173
Payroll taxes	1,078,513	1,145,664	1,209,960	1,300,032
Purchased/contracted services	6,238,559	6,576,714	6,836,463	6,876,603
Payments to physicians	1,029,928	665,658	741,718	794,630
Supplies	2,301,124	2,226,108	2,310,046	2,167,213
Nursing facility fees	93,800,000	105,400,000	127,910,316	151,238,128
Travel	104,553	115,701	97,839	96,168
Telephone and utilities	900,291	938,264	725,361	825,610
Maintenance and repairs	1,340,271	1,517,058	1,428,021	1,562,563
Rental expense	281,169	381,271	253,862	230,625
Insurance	192,719	200,181	226,585	239,206
Legal and professional	118,072	209,438	150,211	205,911
Depreciation	1,977,775	2,050,295	2,418,699	2,562,739
Other expenses	3,436,974	4,355,950	3,981,312	4,764,246
Total operating expenses	132,541,109	145,336,075	168,265,607	194,308,228
Operating income (loss)	(54,158)	981,855	1,083,550	(7,280,845)
Property taxes	4,016,139	4,414,084	4,350,543	4,368,428
Investment income	88,377	377,149	381,668	157,900
Interest expense	(11,406)	(822)	(49,040)	(41,662)
Contributions and grants	219,921	49,633	2,089,759	13,106,161
Other nonoperating revenue	2,200	60,466	-	93,600
Special Items - Forgiveness of debt	-	-	-	3,017,700
	4,315,231	4,900,510	6,772,930	20,702,127
Increase in net position	\$ 4,261,073	\$ 5,882,365	\$ 7,856,480	\$ 13,421,282