




Frio Hospital District

Independent Auditor's Report and Financial Statements

September 30, 2024 and 2023



Frio Hospital District
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September 30, 2024 and 2023

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Independent Auditor's Report

Board of Directors
Frio Hospital District
Pearsall, Texas

Opinion

We have audited the financial statements of the Frio Hospital District as of and for the years ended September 30, 2024 and 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2024 and 2023, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing 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. Our opinion on the basic financial statements is not affected by this missing information.

Forvis Mazars, LLP

**Dallas, Texas
January 21, 2025**

Frio Hospital District
Balance Sheets
September 30, 2024 and 2023

	2024	2023
ASSETS		
Current Assets		
Cash	\$ 15,274,578	\$ 21,793,744
Property taxes receivable, net	154,287	160,013
Nursing home patient accounts receivable, net of allowance; 2024 – \$7,520,000, 2023 – \$1,606,000	30,081,727	6,423,115
Quality improvement payment program receivable	4,930,289	1,356,386
Prepaid expenses and other	244,398	292,471
Leases receivable – current	797,618	741,769
Lease interest receivable	18,917	20,153
Interest receivable	78,770	-
Prepaid intergovernmental transfer	6,637,903	1,728,610
Notes receivable	1,808,166	-
Total Current Assets	60,026,653	32,516,261
Capital Assets, Net	12,871,569	7,792,455
Leases Receivable	10,552,708	11,350,326
Other Asset	3,553	3,828
Total Assets	\$ 83,454,483	\$ 51,662,870
LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION		
Current Liabilities		
Accounts payable and accrued expenses	\$ 305,923	\$ 390,656
Management fee payable	32,291,412	6,932,466
Lines of credit	1,060,446	-
Interest payable	3,176	-
Total Current Liabilities	33,660,957	7,323,122
Deferred Inflows of Resources – Leases	11,369,243	12,112,249
Net Position		
Net investment in capital assets	12,527,931	7,457,199
Unrestricted	25,896,352	24,770,300
Total Net Position	38,424,283	32,227,499
Total Liabilities, Deferred Inflows of Resources, and Net Position	\$ 83,454,483	\$ 51,662,870

Frio Hospital District
Statements of Revenues, Expenses, and Changes in Net Position
Years Ended September 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Operating Revenues		
Lease rental income	\$ 741,769	\$ 681,193
Nursing home net patient service revenue, net of provision for uncollectible accounts; 2024 – \$7,520,000, 2023 – \$1,606,000	106,069,706	43,386,286
Quality improvement payment program revenue	6,127,816	4,028,863
Other	101,078	101,241
Total Operating Revenues	<u>113,040,369</u>	<u>48,197,583</u>
Operating Expenses		
Purchased services and professional fees	81,777	83,579
Nursing facility fees	110,483,802	46,575,145
Supplies and other	697,302	388,353
Intergovernmental transfer expense	1,129,696	1,074,621
Indigent care expense	138,835	135,334
Depreciation and amortization	678,093	576,604
Total Operating Expenses	<u>113,209,505</u>	<u>48,833,636</u>
Operating Loss	<u>(169,136)</u>	<u>(636,053)</u>
Nonoperating Revenues (Expenses)		
Property taxes	5,985,896	5,245,546
Provider Relief Fund and Coronavirus Relief Fund revenue	-	1,302,672
Interest income	648,440	471,895
Interest expense	(88,556)	-
Debt issuance costs	(179,860)	-
Total Nonoperating Revenues (Expenses)	<u>6,365,920</u>	<u>7,020,113</u>
Increase in Net Position	6,196,784	6,384,060
Net Position, Beginning of Year	<u>32,227,499</u>	<u>25,843,439</u>
Net Position, End of Year	<u>\$ 38,424,283</u>	<u>\$ 32,227,499</u>

Frio Hospital District
Statements of Cash Flows
Years Ended September 30, 2024 and 2023

	2024	2023
Operating Activities		
Receipts from rental agreements	\$ 741,768	\$ 681,194
Receipts from and on behalf of patients	80,055,714	44,178,872
Payments to suppliers and contractors	(85,787,922)	(43,974,037)
Intergovernmental transfers	(1,210,333)	(1,324,959)
Payments for indigent care	(138,835)	(135,334)
Other receipts	101,078	101,241
Net Cash Used in Operating Activities	(6,238,530)	(473,023)
Noncapital Financing Activities		
Provider relief fund receipts	-	1,302,672
Property taxes supporting operations	5,991,622	5,585,688
Payments made on notes receivable	(6,931,941)	-
Payments received on notes receivable	5,123,775	-
Interest received on notes receivable	136,809	-
Proceeds from issuances of lines of credit	12,600,941	-
Costs of issuance of lines of credit	(179,860)	-
Principal paid on lines of credit	(11,540,495)	-
Interest paid on lines of credit	(85,380)	-
Net Cash Provided by Noncapital Financing Activities	5,115,471	6,888,360
Capital and Related Financing Activities		
Interest receipts on rental agreements	352,619	373,984
Purchase of capital assets	(5,829,243)	(1,734,399)
Net Cash Used in Capital and Related Financing Activities	(5,476,624)	(1,360,415)
Investing Activities		
Interest income	80,517	98,186
Net Cash Provided by Investing Activities	80,517	98,186
Increase (Decrease) in Cash	(6,519,166)	5,153,108
Cash, Beginning of Year	21,793,744	16,640,636
Cash, End of Year	\$ 15,274,578	\$ 21,793,744

Frio Hospital District
Statements of Cash Flows (Continued)
Years Ended September 30, 2024 and 2023

	<u>2024</u>	<u>2023</u>
Reconciliation of Operating Loss to Net Cash Used in Operating Activities		
Operating loss	\$ (169,136)	\$ (636,053)
Depreciation and amortization	678,093	576,604
Provision for uncollectible accounts	7,520,432	1,605,779
Changes in operating assets and liabilities		
Patient accounts receivable	(31,179,044)	(4,751,146)
Accounts and management fee payable	25,346,249	3,092,737
Other assets and liabilities	<u>(8,435,124)</u>	<u>(360,944)</u>
Net Cash Used in Operating Activities	<u><u>\$ (6,238,530)</u></u>	<u><u>\$ (473,023)</u></u>
Noncash Investing, Capital, and Financing Activities		
Capital asset acquisitions included in accounts payable	\$ 263,220	\$ 335,256

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

Nature of Operations and Reporting Entity

Frio Hospital District (District) was created by an act of the Texas State Legislature. The District is managed by a board of directors who are elected by the citizens of the District. The District primarily earns revenues through leasing of a healthcare facility owned by the District to Frio Hospital Association d/b/a Frio Regional Hospital (Hospital). The District has also acquired the operations of twelve nursing homes located in the District's service area.

Basis of Accounting and Presentation

The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities, and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated or voluntary nonexchange transactions (principally county appropriations) 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 or voluntary nonexchange transactions that are not program specific (such as county appropriations), property taxes, interest 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, liabilities, and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Property Taxes

Excluding nursing home net patient service revenue and supplemental Medicaid revenue, the District received approximately 76% and 63% of its financial support from property taxes in 2024 and 2023, respectively. Including nursing home net patient service revenue and supplemental Medicaid revenue, the District received approximately 5% and 9% of its financial support from property taxes in 2024 and 2023, respectively. These funds were used to support operations.

Property taxes are levied by the District on October 1 of each year based on the preceding January 1 assessed property values. To secure payment, an enforceable lien attaches to the property on January 1, when the value is assessed. Property taxes become due and payable when levied on October 1. This is the date on which an enforceable legal claim arises, and the District records a receivable for the property tax assessment, less an allowance for uncollectible taxes. Property taxes are considered delinquent after January 31 of the following year. The District's allowance for uncollectible property taxes was approximately \$440,000 and \$760,000 at 2024, and 2023, respectively.

The District's property tax rate was \$.21225 and \$.23741 per \$100 valuation for 2024 and 2023, respectively. Property tax revenue totaled approximately \$5,986,000 and \$5,246,000 for 2024 and 2023, 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; and natural disasters. Commercial insurance coverage is purchased for claims arising from such. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Nursing Home Patient Accounts Receivable and Net Patient Service Revenue

The District reports nursing home 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.

The District has agreements with third-party payers that provide for payments to their nursing home 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.

Capital Assets

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

Buildings and improvements	5 to 40 years
Equipment	3 to 15 years

Net Position

Net position of the District is classified in two components on its balance sheets.

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 assets less remaining liabilities that do not meet the definition of net investment in capital assets.

Income Taxes

As an essential government function, 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.

Frio Hospital District
Notes to Financial Statements
September 30, 2024 and 2023

Note 2. 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 policy regarding custodial credit risk is to follow the provisions of the *Texas Public Funds Investment Act*.

State law requires collateralization of all deposits with federal depository insurance; bonds, and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Texas; bonds of any city, county, school district or special road district of the state of Texas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At September 30, 2024, and 2023, respectively, \$125 and \$0 of the District's bank balances of \$15,386,000 and \$21,817,000 were exposed to custodial credit risk.

Note 3. Capital Assets

Capital assets activity for the year ended September 30 was:

	2024				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land and land improvements	\$ 544,772	\$ -	\$ -	\$ -	\$ 544,772
Buildings and improvements	12,534,759	-	-	5,628,067	18,162,826
Equipment	2,832,719	-	-	297,085	3,129,804
Construction in progress	965,018	5,757,207	-	(5,925,152)	797,073
	16,877,268	5,757,207	-	-	22,634,475
Less accumulated depreciation	9,084,813	678,093	-	-	9,762,906
Capital assets, net	<u>\$ 7,792,455</u>	<u>\$ 5,079,114</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 12,871,569</u>

	2023				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land and land improvements	\$ 536,104	\$ 246	\$ -	\$ 8,422	\$ 544,772
Buildings and improvements	11,494,919	-	-	1,039,840	12,534,759
Equipment	2,617,069	-	-	215,650	2,832,719
Construction in progress	170,426	2,058,504	-	(1,263,912)	965,018
	14,818,518	2,058,750	-	-	16,877,268
Less accumulated depreciation	8,508,209	576,604	-	-	9,084,813
Capital assets, net	<u>\$ 6,310,309</u>	<u>\$ 1,482,146</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,792,455</u>

At September 30, 2024 and 2023, construction in progress primarily represents costs incurred for the purchase and construction of a new clinic as well as various renovation projects in progress for the hospital. Management intends to complete these projects during 2025 and will fund these projects through operating cash on hand.

Note 4. Transactions with the Hospital

Hospital Facility Lease

Effective January 1, 1990, the District leased all of its facilities to the Hospital. The initial lease term was for a fifteen-year period, with renewal terms stating the lease can be extended by up to two additional terms of fifteen years each. The current lease agreement expires December 31, 2034. The agreement states the Hospital will make monthly payments in the amount of approximately \$70,000 to the District, with scheduled increases of 3% annually. Revenue recognized under lease contracts during the years ended September 30, 2024 and 2023, were approximately \$1,094,000 and \$1,055,000, respectively, which includes both lease revenue and interest. At September 30, 2024 and 2023, lease receivables under this agreement are approximately \$11,350,000 and \$12,092,000, respectively, and deferred inflows of resources are approximately \$11,369,000 and \$12,112,000, respectively.

Administrative Services

The District uses the Hospital personnel for the record-keeping and operations of the District. Expenses incurred for the use of Hospital personnel was approximately \$82,000 and \$84,000 for 2024 and 2023, which is included as purchased services and professional fees in the accompanying statements of revenues, expenses, and changes in net position.

Indigent Care

In 2024 and 2023, the District paid approximately \$139,000 and \$135,000, respectively, directly to the Hospital for indigent care services provided in the community.

Note 5. Intergovernmental Transfer Expense

On December 12, 2011, the United States Department of Health and Human Services (HHSC) approved a new 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 assists hospital providers with uncompensated care costs (UC Pool) and promote health system transformation (DSRIP Pool). The Hospital also participates in the state of Texas Medicaid disproportionate share hospital (DSH) program. Under these programs, various governmental agencies, including the District, make intergovernmental transfers on behalf of the Hospital. These transfers are used by the state of Texas Medicaid program to draw down federal funding for the Hospital. As part of support provided to the Hospital, the District provided approximately \$1,130,000 and \$1,075,000 in funding to the program for the years ended September 30, 2024 and 2023, respectively, which is recognized as intergovernmental transfer expense in the accompanying statements of revenues, expenses, and changes in net position.

The Hospital's funding from the UC Pool is limited to certain costs and is subject to recoupment based on subsequent audit results. In the event of an overpayment, the state's share of the funding related to the Hospital's overpayment would be returned to the District. At September 30, 2024 and 2023, the District has recorded receivables of approximately \$81,000 and \$250,000, respectively, of intergovernmental transfers to be returned related to completed audit results.

Note 6. Nursing Home Operations

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

Nursing Home Net Patient Service Revenue

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

Substantially all of the District's nursing home net patient service revenue for the years ended September 30, 2024 and 2023, is from participation in the Medicare and state-sponsored Medicaid programs. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. 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.

Nursing Home Patient Accounts Receivable

The District grants credit without collateral to its nursing home patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at September 30, 2024 and 2023, primarily consisted of amounts owed from Medicare and Medicaid programs.

Quality Improvement Payment Program

The District participates in the Quality Improvement Payment Program (QIPP). The program is designed to assist nursing facilities servicing indigent patients by providing funding to support increased access to healthcare within the community. It is also designed to allow participating providers to receive additional reimbursement if they either reach a national benchmark level or they make quarterly improvements in up to four predetermined quality measures.

At September 30, 2024 and 2023, the District recorded approximately \$6,638,000 and \$1,729,000, respectively, of prepaid intergovernmental transfers related to QIPP, which the District is required to contribute as the state share of QIPP funding. Amounts receivable under this program was approximately \$4,930,000 and \$1,356,000 at September 30, 2024 and 2023, respectively.

The program described above is subject to review and scrutiny by both the Texas Legislature and the Centers for Medicare and Medicaid Services and the program could be modified or terminated based on new legislation or regulation in future periods.

Notes Receivable from Nursing Homes

During 2024, the District provided working capital loans to various nursing home facilities participating in the QIPP program. These receivables are to be repaid within one year of the first draw. At September 30, 2024 and 2023, the District had outstanding receivables of approximately \$1,808,000 and \$0, respectively, included in notes receivable on its balance sheets.

Note 7. Lines of Credit

The following is a summary of line of credit activity for the District for the year ended September 30, 2024:

	2024				Current Portion
	Beginning Balance	Additions	Deductions	Ending Balance	
Lines of credit	\$ -	\$ 12,600,941	\$ (11,540,495)	\$ 1,060,446	\$ 1,060,446

In 2024, the District obtained two non-revolving lines of credit. The lines of credit are collateralized by the District's net revenues and net patient accounts receivable. The line of credit dated May 30, 2024 has a maximum principal amount of \$7,970,000, with a maturity date of May 25, 2025. The line of credit dated February 29, 2024 has a maximum principal amount of \$10,000,000, with a maturity date of February 20, 2025.

Note 8. COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus (COVID 19) as a global pandemic. The District received general and targeted Provider Relief Fund distributions provided for under the *Coronavirus Aid, Relief, and Economic Security (CARES) Act* as discussed below.

During the years ended September 30, 2024 and 2023, the District received approximately \$0 and \$1,303,000, respectively, of distributions from the CARES Act Provider Relief Fund and Coronavirus Relief Fund (collectively COVID Funds). These distributions from the COVID Funds 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 U.S. Department of Health and Human Services.

The District is accounting for such payments as conditional contributions. Payments are recognized as other non-operating revenue once the applicable terms and conditions required to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the COVID Funds and the effect of the pandemic on the District's operating revenues and expenses, the District recognized approximately \$0 and \$1,303,000 of COVID Funds revenue for the years ended September 30, 2024 and 2023, respectively.

The terms and conditions governing the COVID 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. COVID Funds payments are subject to government oversight, including potential audits.

Note 9. Subsequent Events

Subsequent to September 30, 2024, the District obtained lines of credit to be used for operating purposes. The lines of credit are collateralized by the District's net revenues and patient accounts receivable. The revolving line of credit dated October 23, 2024, has a maturity date of October 23, 2025, and a maximum principal amount of \$7,500,000. The nonrevolving line of credit dated December 9, 2024, has a maturity date of November 25, 2025, and a maximum principal amount of \$9,760,000.