

Uvalde County Hospital Authority

Independent Auditor's Report and Financial Statements

June 30, 2020 and 2019

Uvalde County Hospital Authority
June 30, 2020 and 2019

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Independent Auditor's Report

Board of Directors
Uvalde County Hospital Authority
Uvalde, Texas

We have audited the accompanying financial statements of Uvalde County Hospital Authority (the Authority), as of and for the years ended June 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the Authority'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 Authority as of June 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

Waco, Texas
November 6, 2020

Uvalde County Hospital Authority

Management's Discussion and Analysis

Years Ended June 30, 2020 and 2019

Introduction

This management's discussion and analysis of the financial performance of Uvalde County Hospital Authority (the Authority) provides an overview of the Authority's financial activities for the years ended June 30, 2020 and 2019. It should be read in conjunction with the accompanying financial statements of the Authority.

Financial Highlights

- The Authority's net position increased in 2020 by \$20,213,556, or 14%, and increased by \$20,501,216, or 16%, in 2019.
- The Authority reported operating income in 2020 and 2019 of \$18,200,676 and \$17,618,945, respectively.
- Net nonoperating revenues (expenses), including capital grants and gifts, decreased by \$869,391, or 30%, in 2020 compared to 2019, and decreased by \$21,344, or 1%, in 2019 compared to 2018.

Using This Annual Report

The Authority'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 Authority, including resources held by the Authority but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Authority 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 hospital's finances is "Is the hospital 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 Authority'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 Authority's net position and changes in them. The Authority's total net position—the difference between assets and liabilities—is one measure of the Authority's financial health or financial position. Over time, increases or decreases in the Authority's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Authority'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 Authority.

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 Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the balance sheets. The Authority's net position increased in 2020 by \$20,213,556, or 14%, and increased in 2019 by \$20,501,216, or 16%, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2020	2019	2018
Assets			
Patient accounts receivable, net	\$ 6,927,546	\$ 7,848,084	\$ 7,366,080
Nursing facility patient accounts receivable, net	15,080,792	17,243,856	13,028,673
Other current assets	139,470,366	92,269,744	78,831,105
Capital assets, net	33,710,399	20,061,545	19,812,074
Other noncurrent assets	40,991,404	40,085,348	33,064,081
	<u>\$ 236,180,507</u>	<u>\$ 177,508,577</u>	<u>\$ 152,102,013</u>
Liabilities			
Long-term debt	\$ 3,380,846	\$ -	\$ -
Other current and noncurrent liabilities	63,893,519	28,815,991	23,910,643
	<u>67,274,365</u>	<u>28,815,991</u>	<u>23,910,643</u>
Net Position			
Net investment in capital assets	27,621,143	19,577,254	19,812,074
Unrestricted	141,284,999	129,115,332	108,379,296
	<u>168,906,142</u>	<u>148,692,586</u>	<u>128,191,370</u>
	<u>\$ 236,180,507</u>	<u>\$ 177,508,577</u>	<u>\$ 152,102,013</u>

A significant change in the Authority's 2020 assets is the increase in other current assets of \$47,200,622, or 51%, due to the increase in cash attributable to the Authority's strong financial performance and receipt of CARES Act funding in 2020. In 2020, capital assets, net, increased as the construction began on the replacement facility.

In 2019, other current assets increased by \$13,438,639, or 17%, due to the increase in short-term deposits attributable to the Authority's participation in the nursing facility quality incentive payment program. In 2019, nursing facility patient accounts receivable, net, increased as well as other current liabilities increased, attributable to the addition of nursing homes for participation in the nursing facility quality incentive payment program.

Operating Results and Changes in the Authority's Net Position

The increase in net position of \$20,213,556 for 2020 is the result of income from operations of \$18,200,676 and the net of nonoperating revenues (expenses), including capital grants and contributions, of \$2,012,880. Hospital net patient service revenue decreased by \$622,794 or 1%. Operating expenses, as a percentage of net patient service revenue and nursing facility revenue, remained consistent from 95% in 2019 to 96% in 2020.

Table 2: Operating Results and Changes in Net Position

	2020	2019	2018
Operating Revenues			
Net patient service revenue	\$ 65,800,780	\$ 66,423,574	\$ 63,491,268
Nursing facility revenue	227,040,986	219,118,855	186,892,910
Other operating revenues	5,496,752	3,991,140	3,929,797
	<u>298,338,518</u>	<u>289,533,569</u>	<u>254,313,975</u>
Operating Expenses			
Salaries and wages and employee benefits	36,478,370	34,899,759	34,614,814
Purchased services and professional fees	8,719,846	8,776,429	8,466,208
Depreciation and amortization	4,135,237	2,468,344	2,651,693
Gain (loss) on sale of capital assets	-	(1,250)	6,865
Nursing facility fees	219,027,014	214,073,388	181,048,837
Supplies and other	11,777,375	11,697,954	11,856,873
	<u>280,137,842</u>	<u>271,914,624</u>	<u>238,645,290</u>
Operating Income	<u>18,200,676</u>	<u>17,618,945</u>	<u>15,668,685</u>
Nonoperating Revenues (Expenses)			
Interest income	1,122,764	1,153,974	774,017
Interest expense	(8,410)	-	3,715
Noncapital grants and gifts	265,232	104,142	15,808
Other nonoperating revenues and expenses, net	633,294	1,624,155	2,110,075
	<u>2,012,880</u>	<u>2,882,271</u>	<u>2,903,615</u>
Increase in Net Position	<u>\$ 20,213,556</u>	<u>\$ 20,501,216</u>	<u>\$ 18,572,300</u>

Operating Income

The Authority reported operating income for 2020 of \$18,200,676, as compared to operating income in 2019 of \$17,618,945. The primary components of the increase in operating income are:

- A decrease in net patient service revenue of \$622,794, or 1%.
- An increase in other operating revenue of \$1,505,612, or 38%.
- An increase in salaries and wages for the Authority's employees of \$1,216,383, or 5%.
- An increase in nursing facility revenues of \$7,922,131, or 4%, and an increase in nursing facility fees of \$4,953,626, or 2%.

The Authority receives Disproportionate Share revenue from the state for providing healthcare services to low-income patients. The state also supplements rural public hospitals with the Texas Healthcare Transformation and Quality Improvement Program (the Waiver). The combined Disproportionate Share and Waiver revenue recognized by the Authority in 2020 decreased by approximately \$559,000 from prior year. The revenue is recorded in net patient service revenue.

Operating expense increased in the current year by \$8,223,218, or 3%. The significant variances in expense line items from prior year expenses are: salaries and wages and employee benefits increased by \$1,578,611 and depreciation increased by \$1,666,893 due to the change in expected useful life of the current facility building and related equipment.

Other operating revenue of \$5,496,752 for 2020 increased by \$1,505,612 compared to prior year. Other operating income consists of Advantage Care membership fees, medical record fees, cafeteria sales, rental income, purchase discounts, and other miscellaneous income.

The Authority reported operating income for 2019 of \$17,618,945, as compared to operating income in 2018 of \$15,668,685. The primary components of the increase in operating income are:

- An increase in net patient service revenue of \$2,932,306, or 5%.
- A decrease in other operating revenue of \$61,343, or 2%.
- An increase in salaries and wages for the Authority's employees of \$588,051, or 2%.
- An increase in nursing facility revenues of \$32,225,945, or 17%, and an increase in nursing facility fees of \$33,024,551, or 18%.

The Authority receives Disproportionate Share revenue from the state for providing healthcare services to low-income patients. The state also supplements rural public hospitals with the Texas Healthcare Transformation and Quality Improvement Program (the Waiver). The combined Disproportionate Share and Waiver revenue recognized by the Authority in 2019 decreased by \$760,000 million from 2018 to 2019. The revenue is recorded in net patient service revenue.

Operating expense increased in 2019 by \$33,269,334, or 14%. The significant variances in expense line items from 2018 expenses are: salaries and wages and employee benefits increased by \$284,945 and purchased services decreased by \$310,221.

Other operating revenue of \$3,991,140 for 2019 increased by \$61,343 compared to 2018. Other operating income consists of Advantage Care membership fees, medical record fees, cafeteria sales, rental income, purchase discounts, and other miscellaneous income.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of sales tax revenue, interest income, interest expense, noncapital contributions, and contributed services. Sales tax revenue is distributed to Uvalde County and designated for healthcare expenditure. The portion paid to the Authority in 2020 decreased by \$26,926, or 3%, from the 2019 allocation, and decreased in 2019 by \$99,265, or 9%, from the 2018 allocation. Contributed services decreased in 2020 and 2019 by \$33,399, or 5%, and \$386,655, or 38%, respectively. Noncapital grants and gifts increased by \$161,090 due to CARES Act funding as discussed further in *Note 16*.

The Authority's Cash Flows

The changes in the Authority's cash flows are consistent with changes in assets, liabilities, operating income and nonoperating revenues and expenses for 2020 and 2019, as discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2020 and 2019, the Authority had \$33,710,399 and \$20,061,545, respectively invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2020 and 2019, the Authority purchased new fixed assets costing \$17,784,091 and \$2,717,815, respectively.

Debt

At June 30, 2020, the Authority had \$5,250,000 in long-term debt. The Authority issued the Series 2019 revenue bonds and obtained a paycheck protection program loan in 2020, as detailed in *Note 8* to the financial statements. There have been no changes in the Authority's debt ratings in the past three years.

Contacting the Authority's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority's Chief Financial Officer, at Uvalde County Hospital Authority, 1025 Garner Field Road, Uvalde, TX, 78801.

Uvalde County Hospital Authority

Balance Sheets

June 30, 2020 and 2019

Assets

	<u>2020</u>	<u>2019</u>
Current Assets		
Cash	\$ 72,557,502	\$ 15,330,428
Short-term investments	30,696,270	53,158,613
Patient accounts receivable, net of allowance; 2020 - \$6,274,570; 2019 - \$5,699,540	6,927,546	7,848,084
Nursing facility patient accounts receivable, net	15,080,792	17,243,856
Estimated amounts due from third-party payers	19,748,863	21,514,880
Prepaid nursing facility management fees	14,311,144	-
Supplies	1,211,976	1,127,072
Prepaid expenses and other	944,611	1,138,751
	<u>161,478,704</u>	<u>117,361,684</u>
Noncurrent Investments		
Board designated for self-insured risks	300,000	300,000
Board designated for capital acquisitions	40,483,187	39,561,155
	<u>40,783,187</u>	<u>39,861,155</u>
Capital Assets, Net	<u>33,710,399</u>	<u>20,061,545</u>
Other Assets	<u>208,217</u>	<u>224,193</u>
	<u>\$ 236,180,507</u>	<u>\$ 177,508,577</u>

See Notes to Financial Statements

Liabilities and Net Position

	2020	2019
Current Liabilities		
Current maturities of long-term debt	\$ 1,869,154	\$ -
Accounts payable	6,014,520	1,297,709
Accrued expenses	4,206,568	3,929,195
Estimated amounts due to third-party payers	7,239,731	2,346,352
Estimated self-insured health insurance costs	711,358	618,727
Unearned revenue - current	20,754,293	-
Nursing facility payable	23,097,895	20,622,589
	<hr/>	<hr/>
Total current liabilities	63,893,519	28,814,572
Long-term Debt	3,380,846	-
Unearned Revenue	-	1,419
	<hr/>	<hr/>
Total liabilities	67,274,365	28,815,991
	<hr/>	<hr/>
Net Position		
Net investment in capital assets	27,621,143	19,577,254
Unrestricted	141,284,999	129,115,332
	<hr/>	<hr/>
Total net position	168,906,142	148,692,586
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Total liabilities and net position	\$ 236,180,507	\$ 177,508,577
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Uvalde County Hospital Authority
Statements of Revenues, Expenses and Changes in Net Position
Years Ended June 30, 2020 and 2019

	2020	2019
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2020 - \$7,810,779; 2019 - \$9,766,664	\$ 65,800,780	\$ 66,423,574
Nursing facility revenue	227,040,986	219,118,855
Other	5,496,752	3,991,140
Total operating revenues	298,338,518	289,533,569
Operating Expenses		
Salaries and wages	26,788,556	25,572,173
Employee benefits and payroll taxes	9,689,814	9,327,586
Purchased services and professional fees	8,719,846	8,776,429
Nursing facility fees	219,027,014	214,073,388
Supplies and other	11,777,375	11,697,954
Depreciation and amortization	4,135,237	2,468,344
Gain on sale of capital assets	-	(1,250)
Total operating expenses	280,137,842	271,914,624
Operating Income	18,200,676	17,618,945
Nonoperating Revenues (Expenses)		
Interest income	1,122,764	1,153,974
Interest expense	(8,410)	-
Bond issuance costs	(1,051,186)	-
Noncapital grants and gifts	265,232	104,142
Noncapital sales tax appropriations, Uvalde County	1,010,436	983,510
Contributed services	674,044	640,645
Total nonoperating revenues	2,012,880	2,882,271
Increase in Net Position	20,213,556	20,501,216
Net Position, Beginning of Year	148,692,586	128,191,370
Net Position, End of Year	\$ 168,906,142	\$ 148,692,586

Uvalde County Hospital Authority
Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Operating Activities		
Receipts from and on behalf of patients	\$ 303,317,777	\$ 275,619,015
Payments to suppliers and contractors	(253,057,864)	(234,045,607)
Payments to employees	(36,189,067)	(34,327,042)
Other receipts, net	8,003,320	8,432,126
Net cash provided by operating activities	22,074,166	15,678,492
Noncapital Financing Activities		
Proceeds from issuance of paycheck protection program loan	4,250,000	-
Noncapital grants and gifts	20,275,525	104,142
Noncapital sales tax appropriations, Uvalde County	1,010,436	983,510
Net cash provided by noncapital financing activities	25,535,961	1,087,652
Capital and Related Financing Activities		
Payment of bond issuance costs	(1,051,186)	-
Proceeds from issuance of long-term debt	1,000,000	-
Interest paid on long-term debt	(8,410)	-
Purchase of capital assets	(13,179,126)	(2,232,274)
Net cash used in capital and related financing activities	(13,238,722)	(2,232,274)
Investing Activities		
Interest on investments	1,315,358	1,085,589
Purchase of investments	(10,946,081)	(17,513,706)
Proceeds from disposition of investments	32,486,392	-
Net cash provided by (used in) investing activities	22,855,669	(16,428,117)
Increase (Decrease) in Cash	57,227,074	(1,894,247)
Cash, Beginning of Year	15,330,428	17,224,675
Cash, End of Year	\$ 72,557,502	\$ 15,330,428

Uvalde County Hospital Authority
Statements of Cash Flows (Continued)
Years Ended June 30, 2020 and 2019

	2020	2019
Reconciliation of Net Operating Revenues (Expenses) to		
Net Cash Provided by Operating Activities		
Operating income	\$ 18,200,676	\$ 17,618,945
Depreciation and amortization	4,135,237	2,468,344
Noncash contributed services	674,044	640,645
Provision for uncollectible accounts	7,810,779	9,766,664
Changes in operating assets and liabilities:		
Patient receivables, net	(4,727,177)	(14,463,851)
Accounts payable and accrued liabilities	3,607,106	4,496,277
Estimated third-party payer settlements	(7,651,748)	(4,853,844)
Other assets and liabilities	25,249	5,312
Net cash provided by operating activities	\$ 22,074,166	\$ 15,678,492
 Supplemental Cash Flows Information		
Noncash contributed services	\$ 674,044	\$ 406,185
Fixed assets included in accounts payable	5,089,256	484,291

Uvalde County Hospital Authority

Notes to Financial Statements

June 30, 2020 and 2019

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

Nature of Operations and Reporting Entity

The Uvalde County Hospital Authority (the Authority), located in Uvalde, Texas, is a county hospital created by the Commissioner's Court of Uvalde County, Texas (the Court). The Authority primarily earns revenues by providing inpatient, outpatient, and emergency care services to the residents of Uvalde County (the County) and surrounding areas.

The Authority is under the control and management of a seven-member Board of Directors (the Board). The Court appoints three of the Directors, and the existing Board appoints the successors for the remaining four positions.

The Uvalde Medical and Surgical Associates (the Associates) is a Texas nonprofit health organization certified by the Texas State Board of Medical Examiners. The Associates operate primarily for the purpose of providing physician services to the Authority's patients. The Authority is the sole corporate member of the Associates and has the authority to exercise significant control over the financial operations of the Associates. As such, the Associates is presented as a blended component unit of the Authority. Separate financial statements of the Associates can be obtained by contacting the Authority's management.

During 2015, 2017, 2018, and 2019, the Authority acquired the operations of 31 nursing homes located in the Authority's service area.

Basis of Accounting and Presentation

The financial statements of the Authority 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 (principally federal and state grants and 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 nonexchange transactions that are not program specific (such as county appropriations), investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Authority 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.

Uvalde County Hospital Authority

Notes to Financial Statements

June 30, 2020 and 2019

Risk Management

The Authority 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, except for employee health benefits, for which the Authority is partially self-insured, and professional liability, for which the Authority is self-insured. Settled claims have not exceeded commercial coverage in any of the three preceding years.

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

Investments

Investments consist of non-negotiable certificates of deposit and TexPool, which are carried at amortized cost.

Patient Accounts Receivable

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

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 and amortization 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 Authority:

Land improvements	5 – 25 years
Buildings and improvements	25 – 40 years
Equipment	3 – 20 years
Computer software	3 - 5 years

Uvalde County Hospital Authority

Notes to Financial Statements

June 30, 2020 and 2019

Grants and Gifts

From time to time, the Authority receives grants and contributions from federal and state sources, and individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Compensated Absences

Authority policies permit most employees to accumulate vacation 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. 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 Authority is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and amortization and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net position are remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

The Authority has agreements with third-party payers that provide for payments to the Authority 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 Authority provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Authority does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Uvalde County Hospital Authority

Notes to Financial Statements

June 30, 2020 and 2019

Income Taxes

As an essential government function of the County, the Authority 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 Authority is subject to federal income tax on any unrelated business taxable income.

The Authority has also been recognized as a not-for-profit corporation pursuant to Section 501(c)(3) of the Internal Revenue Code.

The Associates is organized as a dual status exempt organization pursuant to Section 501(c)(3) of the Internal Revenue Code and is not required to file an Informational Return Form 990.

Note 2: Net Patient Service Revenue

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

Medicare. The Authority is certified as a Critical Access Hospital (CAH) by Medicare. As a CAH, the Authority is reimbursed for substantially all inpatient and outpatient services to Medicare beneficiaries based on reasonable costs. Additionally, as a CAH, the Authority's licensed beds are limited to 25, and the acute average length of stay may not exceed 96 hours. The Authority is reimbursed for substantially all services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicare administrative contractor.

Medicaid. Inpatient services are reimbursed under a prospective payment methodology. Outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The Authority is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Authority and audits thereof by the Medicaid administrative contractor.

Approximately 53% and 67% of hospital net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended June 30, 2020 and 2019, 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 Authority has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Uvalde County Hospital Authority

Notes to Financial Statements

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Supplemental Medicaid Funding

The Authority receives funds under the Medicaid Disproportionate Share program (DSH). The DSH program provides additional Medicaid reimbursement to qualifying providers that provide a disproportionate level of care to patients who are indigent or are insured under the Medicaid program. Total revenue recognized at June 30, 2020 and 2019, included approximately \$622,000 and \$1,655,000 of revenue, respectively, which was paid under the DSH program and is included in net patient service revenue. The amounts that the Authority may expect to receive from these programs during the upcoming state fiscal year have not been determined.

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 revenue from the two funding pools is recognized as earned throughout the related demonstration year. The funding the Authority has received is subject to audit and is not representative of funding to be received in future years. The Waiver was originally effective from December 12, 2011 to September 30, 2016 and extended through December 2017 as 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 requires a change in the methodology used to allocate UC funds and a phase out of the DSRIP program over the five-year period. The impact of these changes has not yet been determined, but could have an adverse impact on the Authority’s operating results.

UC Pool payments are designed to help offset the costs of uncompensated care provided by the hospital or other providers.

DSRIP Pool payments are incentive payments to hospitals and other providers that develop programs or strategies to enhance access to health care, increase the quality of care and improve the health of the patients and families served, and improve the cost-effectiveness of the care provided.

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 under the Waiver program was approximately \$6,418,000 and \$5,944,000 for the years ended June 30, 2020 and 2019, respectively, net of intergovernmental transfer payments, and is included in net patient service revenue in the statements of revenues,

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expenses, and changes in net position. At June 30, 2020 and 2019, the Authority reported a payable of approximately \$2.3 million as a result of the demonstration year 2 UC audit, which is included in estimated amounts due to third-party payers on the balance sheet.

In 2018, the Authority began to participate in the Uniform Hospital Rate Increase Program (UHRIP). Under UHRIP, HHSC may direct managed care organizations in 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 revenue from UHRIP is recognized as a component of patient service revenue. At June 30, 2020 and 2019, the Authority had prepaid UHRIP funding of approximately \$1,050,000 and \$948,000, respectively, which is included in amounts due from third-party payers in the balance sheets.

These programs are subject to ongoing review by HHSC and the state of Texas and the funding is subject to recoupment based on future audits. The historical funding is not necessarily representative of funding the Authority will receive in future years.

The funding from the uncompensated care funding pool is 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 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. HHS* that held that the HSL could be reduced by payments received from other third-party payers related to Medicaid eligible patients. This would result in a recoupment of uncompensated care pool funds the Authority has received for 2019 and 2018. There are similar cases being considered in other appellate courts and there has been no clarification on the effective date of the application of this rule. As a result of this uncertainty, the Authority has not recorded a liability for potential funding recoupment. However, the Authority has estimated a potential liability of up to approximately \$3,500,000 should the final resolution result in the HSL reduction described above with retroactive application.

The Authority also participates in Texas Quality Improvement Payment to Qualified Nursing Facilities Program (QIPP) (previously referred to as the Minimum Payment Amount program). These programs are designed to assist nursing facilities serving indigent patients by providing funding to support increased access to health care within the community. Revenue recognized under these programs (net of any intergovernmental transfer payments) was approximately \$8 million and \$10 million for the years ended June 30, 2020 and 2019, respectively, and is included in nursing facility revenue in the statements of revenues, expenses, and changes in net position. At June 30, 2020 and 2019, the Authority had recorded estimated receivables under this program of \$13.8 million and \$14.3 million, respectively. At June 30, 2020 and 2019, the estimated receivable included \$6.4 million and \$10.8 million, respectively, of prepaid intergovernmental transfers, which the Authority is required to contribute in advance of receiving any gross proceeds.

In March 2015, the Texas Health and Human Services Commission (HHSC) expanded state Medicaid managed care programs for long-term care beneficiaries, and converted a number of beneficiaries previously covered under traditional Medicaid arrangements into these managed care

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plans. The Authority generally expects payments under the managed care plans to be equivalent to payments under the traditional plan.

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 Authority'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; 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 Authority or special road Authority 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 June 30, 2020 and 2019, the Authority's bank balances of \$133,307,500 and \$108,879,293, respectively, were fully insured or collateralized.

At June 30, 2020 and 2019, the Authority's deposits other than cash consisted entirely of certificates of deposit.

Investments

The Authority may legally invest in public fund investment pools, direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies or instrumentalities and in bank repurchase agreements.

At June 30, 2020, the Authority had \$10,024,049 invested in TexPool.

TexPool is organized as a state investment pool. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure.

Interest Rate Risk – Interest rate risk is the risk that market values of investments will change based on changes in market interest rates. The Authority's investment policy does not specifically limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. State investment pools 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. It is the Authority's policy to limit its investments to federal agencies, U.S.

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Treasuries and/or other U.S. government-backed securities maturing in two years or less, TexPool, fully collateralized by certificates of deposit that mature in two years or less and fully collateralized demand deposits. At June 30, 2020, the Authority's investment in TexPool was rated AAA by Standard & Poor's.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty the Authority will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Authority is not exposed to custodial credit risk for investments as investments are limited to external investment pools.

Concentration of Credit Risk – The Authority places no limit on the amount that may be invested in any one issuer.

Summary of Carrying Values

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

	<u>2020</u>	<u>2019</u>
Carrying value:		
Deposits	\$ 134,012,910	\$ 108,350,196
Investments	<u>10,024,049</u>	<u>-</u>
	<u>\$ 144,036,959</u>	<u>\$ 108,350,196</u>
Included in the following balance sheets captions:		
Cash	\$ 72,557,502	\$ 15,330,428
Short-term investments	30,696,270	53,158,613
Board Designated:		
Designated for capital acquisitions	40,483,187	39,561,155
Designated for self-insured risks	<u>300,000</u>	<u>300,000</u>
	<u>\$ 144,036,959</u>	<u>\$ 108,350,196</u>

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Note 4: Patient Accounts Receivable

The Authority 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 June 30 consisted of:

	<u>2020</u>	<u>2019</u>
<u>Hospital</u>		
Medicare	\$ 1,302,092	\$ 2,952,440
Medicaid	1,059,603	813,831
Other third-party payers	3,781,639	3,299,570
Patients	<u>7,058,782</u>	<u>6,481,783</u>
	<u>13,202,116</u>	<u>13,547,624</u>
Less allowance for uncollectible accounts	<u>6,274,570</u>	<u>5,699,540</u>
	<u><u>\$ 6,927,546</u></u>	<u><u>\$ 7,848,084</u></u>
<u>Nursing Homes</u>		
Medicare	\$ 9,215,846	\$ 7,421,019
Medicaid	7,983,659	7,966,938
Patients and other third-party payers	<u>7,897,370</u>	<u>6,166,863</u>
	<u>25,096,875</u>	<u>21,554,820</u>
Less allowance for uncollectible accounts	<u>10,016,083</u>	<u>4,310,964</u>
	<u><u>\$ 15,080,792</u></u>	<u><u>\$ 17,243,856</u></u>

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The increase in depreciation in 2020 is due to the anticipated demolition of the current facility upon completion of the construction of the replacement facility and the shortened expected useful life of the related building and equipment. The useful life of these assets were reduced to approximately two years in 2020 based on the expected completion date of the replacement facility

Note 6: Medical Malpractice Claims

The Authority is a unit of government covered by the Texas Tort Claims Acts which, by statute, limits its liability to \$100,000 per person/\$300,000 per occurrence. The Authority is self-insured with respect to medical malpractice for any losses not covered by the tort claims statutes. The Authority created a cash reserve for possible claims of \$300,000 but based on claims history, no liability has been accrued. Losses from asserted claims and from unasserted claims identified under the Authority’s incident reporting systems are accrued based on the nature of each claim or incident and relevant trend factors. It is reasonably possible that the Authority’s estimate of losses will change by a material amount in the near term.

Note 7: Employee Health Claims

Substantially all of the Authority's employees and their dependents are eligible to participate in the Authority's employee health insurance plan. The Authority is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of \$100,000. 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. 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 Authority's estimate will change by a material amount in the near term.

Activity in the Authority's accrued employee health claims liability during 2020 and 2019 is summarized as follows:

	2020	2019
Balance, beginning of year	\$ 618,727	\$ 678,272
Current year claims incurred and changes in estimates for claims incurred in prior years	7,253,569	7,633,117
Claims and expenses paid	(7,160,938)	(7,692,662)
Balance, end of year	\$ 711,358	\$ 618,727

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Note 8: Long-term Obligations

The following is a summary of long-term obligation transactions for the Authority for the year ended June 30, 2020:

	2020				Current Portion
	Beginning Balance	Additions	Deductions	Ending Balance	
Long-term debt:					
Paycheck Protection Program Loan	\$ -	\$ 4,250,000	\$ -	\$ 4,250,000	\$ 1,869,154
Series 2019 Revenue Bonds	-	1,000,000	-	1,000,000	-
Total	<u>\$ -</u>	<u>\$ 5,250,000</u>	<u>\$ -</u>	<u>\$ 5,250,000</u>	<u>\$ 1,869,154</u>

Revenue Bonds, Series 2019

The Series 2019 revenue bonds, issued in the original amount of \$75,000,000 dated November 5, 2019, which bear interest at a variable rate. The Series 2019 bonds are payable in annual installments beginning January 2023 through December 2034. The Series 2019 bonds are secured by the revenue of the Authority and are being drawn in installments as the replacement hospital facilities are constructed. As of June 30, 2020, the Authority had drawn \$1,000,000 on the bonds.

The indenture agreement requires the Authority to comply with certain restrictive covenants, including maintaining a debt service coverage ratio of at least 1.25, a debt to net worth ratio of no greater than 1.25, and days cash on hand of at least 150.

The debt service requirements related to bond obligations as of June 30, 2020, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2021	\$ 14,500	\$ -	\$ 14,500
2022	14,500	-	14,500
2023	242,217	231,067	11,150
2024	37,101	26,333	10,768
2025	41,581	31,267	10,314
2026-2030	257,411	250,732	6,679
2031-2035	463,940	460,601	3,339
	<u>\$ 1,071,250</u>	<u>\$ 1,000,000</u>	<u>\$ 71,250</u>

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Paycheck Protection Program Loan

During April 2020, the Authority obtained a loan under the paycheck protection program (PPP). The PPP loan is due April 23, 2022, with monthly interest payments at 1.00% and monthly principal payments beginning November 2020. The Authority intends to apply for forgiveness of the PPP loan subsequent to year-end. In the event the loan is not forgiven, the debt service requirements as of June 30, 2020, are as follows:

Year Ending June 30,	Total to be Paid	Principal	Interest
2021	\$ 1,913,417	\$ 1,869,154	\$ 44,263
2022	<u>2,391,772</u>	<u>2,380,846</u>	<u>10,926</u>
	<u>\$ 4,305,189</u>	<u>\$ 4,250,000</u>	<u>\$ 55,189</u>

Note 9: Charity Care

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

The costs associated with the Authority's charity care program were \$6,746,036 and \$5,297,755 for 2020 and 2019, respectively. The cost of charity care is estimated by applying the overall ratio of the Authority's cost to charges to the gross charges related to services provided to patients qualifying for the Authority's charity care program.

Note 10: Pension Plan

The Authority contributes to a defined contribution pension plan covering substantially all employees. Pension expense is recorded for the amount of the Authority's required contributions, determined in accordance with the terms of the plan. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the Authority's governing body. Contribution rates for plan members and the Authority expressed as a percentage of covered payroll was 5.6% for both 2020 and 2019, respectively. Contributions made by plan members and the Authority aggregated \$1,183,991 and \$468,866 during 2020 and \$1,100,492 and \$522,282 during 2019, respectively.

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Note 11: Commitments and Contingencies

Litigation

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

Commitment

The Authority entered an agreement to provide funding under the Nursing Home Minimum Payment Amount program with the state of Texas. Under the program, the Authority, as a governmental unit, agrees to provide matching funding to allow the state of Texas to obtain federal matching funds for nursing facility residents covered by Medicaid managed care agreements.

Note 12: Related Party Transactions

As noted in *Note 1*, the Court appoints three members of the Board. Also, Uvalde County, at the discretion of the Court, provided an unrestricted subsidy from sales taxes collected for the purpose of health care services in Uvalde County. The subsidy for the years ended June 30, 2020 and 2019, was \$1,010,436 and \$983,510, respectively.

The Authority from time to time does business with organizations that are affiliated with Board members. During 2020 and 2019, the Authority had deposits of \$133,307,500 and \$108,879,293, respectively, and debt of \$4,650,000, and \$0, respectively, at a bank for which a Board member of the Authority is also a Board member of the bank.

Note 13: Nursing Home Operations

During 2015, 2017, 2018, and 2019 the Authority entered a series of lease and management agreements with several nursing home operators that resulted in the Authority becoming the legal operator of thirty-one 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 Authority. From these collections, the Authority pays the managers for all facility costs and the management fees pursuant to the agreements. The management agreements have initial terms of 2 years. The Authority is obligated to pay a base management fee of 5% of

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ordinary revenue with potential incentive and quality bonuses of up to 50% of net operating income. However, Authority payments to the manager are generally limited to the amount of net patient revenue received from the facilities. At its option, the Authority may pay additional amounts to the manager above the amounts collected for patient revenue.

For 2020 and 2019, total revenues related to these nursing homes were \$227,040,986 and \$219,118,855, respectively, which is included as nursing facility revenue on the statements of revenues, expenses and changes in net position. For 2020 and 2019, expenses related to these nursing homes were \$219,027,014 and \$214,073,388, respectively, which is included as nursing facility fees.

Note 14: Operating Leases

During the years 2015 through 2019, the Authority entered a series of lease and management agreements with several nursing home operators that resulted in the Authority becoming the legal operator of thirty-one nursing homes. Noncancelable operating leases for the Authority expire in 2020 related to nursing home operations. These leases generally contain renewal options for 1 to 2 years. Rental payments include minimum rentals, plus contingent rentals based on revenues.

Future minimum lease payments at June 30, 2020 were:

2021		\$	8,377,676
2022			905,735
Future minimum lease payments		\$	9,283,411

Note 15: Future Change in Accounting Principle

GASB Statement No. 87, Leases

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

GASB 87 is effective for financial statements for the Authority’s fiscal year ending June 30, 2022. Earlier application is encouraged. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun.

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GASB Statement No. 89, Capitalized Interest

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, removes the concept of capitalized interest from all types of governmental entities. This Statement is effective for the Authority's fiscal year ending June 30, 2022, and will be applied prospectively.

Note 16: COVID-19 Pandemic & CARES Act Funding

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

While some of these policies have been eased and states have lifted moratoriums on non-emergent procedures, some restrictions remain in place, and some state and local governments are re imposing certain restrictions due to increasing rates of COVID-19 cases. Beginning in mid-March, the Authority deferred all nonessential medical and surgical procedures and suspended elective procedures, which resumed partially after year end.

In addition, the Authority received approximately \$4,900,000 of accelerated Medicare payments and approximately \$20,000,000 in general and targeted Provider Relief Fund distributions, both as provided for under the *Coronavirus Aid, Relief, and Economic Security (CARES) Act*.

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

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

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Provider Relief Fund

During the year ended June 30, 2020, the Authority received approximately \$20,000,000 of distributions from the CARES Act Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the Authority 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.

Subsequent to year-end, the Authority received approximately \$5,600,000 in additional Provider Relief Fund distributions.

The Authority is accounting for such payments as conditional contributions. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the Authority's operating revenues and expenses through June 30, 2020, the Authority recognized approximately \$100,000, related to the Provider Relief Fund, and these payments are recorded as nonoperating revenue – noncapital grants and gifts in our statements of revenues, expenses and changes in net position. The unrecognized amount of Provider Relief Fund distributions are recorded as part of unearned revenue – current in the accompanying balance sheets.

Subsequent to year-end, HHS issued Post Payment Notice of the Reporting Requirements on September 19, 2020. The guidance outlined a two-step approach to support the funds received and expands the definition of health care related expenses and also limits the amount of lost revenue claimed to any negative change in net patient care operating income from calendar year 2019 to 2020. Additional guidance is expected and guidance may change. As a result, the amounts recorded in the financial statements compared to the Authority's Provider Relief Fund reporting could differ. This difference cannot be currently estimated but could be material.

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

Medicare Accelerated and Advanced Payment Program

During the year ended June 30, 2020, the Authority requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. These amounts are expected to be recaptured by CMS according to the payback provisions.

Subsequent to year-end, 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

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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 June 30, 2020, the Authority received approximately \$4,900,000 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.

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 Authority received a PPP loan of \$4,250,000 in April 2020. The loan has an interest rate of 1 percent, with monthly payments of \$239,177 due monthly starting six months after the receipt of the loan. The loan, if not forgiven, matures on April 23, 2022.

The Authority is accounting for the PPP loan in accordance with GASB Statement 62. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan will be recognized as a gain in the financial statements in the period the debt is legally released. The PPP loan is included on the accompanying balance sheet as long-term debt in accordance with the term of the PPP loan agreement. See *Note 8* for additional information.

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Note 17: Combining Component Unit Information

The following tables include combining balance sheet information for the Authority and its component unit as of June 30, 2020 and 2019.

Assets	2020			2019		
	Uvalde County Hospital Authority	Uvalde Medical and Surgical Associates	Combined Balance	Uvalde County Hospital Authority	Uvalde Medical and Surgical Associates	Combined Balance
Current Assets						
Cash	\$ 72,416,255	\$ 141,247	\$ 72,557,502	\$ 14,650,935	\$ 679,493	\$ 15,330,428
Short-term investments	30,696,270	-	30,696,270	53,158,613	-	53,158,613
Patient accounts receivable, net of allowance	6,803,155	124,391	6,927,546	7,791,034	57,050	7,848,084
Nursing facility patient accounts receivable, net	15,080,792	-	15,080,792	17,243,856	-	17,243,856
Estimated amounts due from third-party payers	19,748,863	-	19,748,863	21,514,880	-	21,514,880
Prepaid nursing facility management fees	14,311,144	-	14,311,144	-	-	-
Supplies	1,211,976	-	1,211,976	1,127,072	-	1,127,072
Prepaid expenses and other	911,838	32,773	944,611	1,082,866	55,885	1,138,751
Total current assets	161,180,293	298,411	161,478,704	116,569,256	792,428	117,361,684
Noncurrent Investments						
Board designated for self-insured risks	300,000	-	300,000	300,000	-	300,000
Board designated for capital acquisitions	40,483,187	-	40,483,187	39,561,155	-	39,561,155
	40,783,187	-	40,783,187	39,861,155	-	39,861,155
Capital Assets, Net	33,708,275	2,124	33,710,399	20,058,799	2,746	20,061,545
Other Assets	208,217	-	208,217	224,193	-	224,193
Total assets	\$ 235,879,972	\$ 300,535	\$ 236,180,507	\$ 176,713,403	\$ 795,174	\$ 177,508,577

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Liabilities and Net Position	2020			2019		
	Uvalde County Hospital Authority	Uvalde Medical and Surgical Associates	Combined Balance	Uvalde County Hospital Authority	Uvalde Medical and Surgical Associates	Combined Balance
Current Liabilities						
Current maturities of long-term debt	\$ 1,869,154	\$ -	\$ 1,869,154	\$ -	\$ -	\$ -
Accounts payable	5,942,290	72,230	6,014,520	1,258,602	39,107	1,297,709
Accrued expenses	4,203,370	3,198	4,206,568	3,925,997	3,198	3,929,195
Estimated amounts due to third-party payers	7,239,731	-	7,239,731	2,346,352	-	2,346,352
Unearned revenue - current	20,754,293	-	20,754,293	-	-	-
Estimated self-insured health insurance costs	711,358	-	711,358	618,727	-	618,727
Nursing facility payable	23,097,895	-	23,097,895	20,622,589	-	20,622,589
Due to from affiliates	(25,593,667)	25,593,667	-	(23,702,195)	23,702,195	-
Total current liabilities	38,224,424	25,669,095	63,893,519	5,070,072	23,744,500	28,814,572
Long-term Debt	3,380,846	-	3,380,846	-	-	-
Unearned Revenue	-	-	-	1,419	-	1,419
Total liabilities	41,605,270	25,669,095	67,274,365	5,071,491	23,744,500	28,815,991
Net Position						
Net investment in capital assets	27,621,143	-	27,621,143	19,577,254	-	19,577,254
Unrestricted	166,653,559	(25,368,560)	141,284,999	152,064,658	(22,949,326)	129,115,332
Total net position	194,274,702	(25,368,560)	168,906,142	171,641,912	(22,949,326)	148,692,586
Total liabilities and net position	\$ 235,879,972	\$ 300,535	\$ 236,180,507	\$ 176,713,403	\$ 795,174	\$ 177,508,577

Uvalde County Hospital Authority
Notes to Financial Statements
June 30, 2020 and 2019

The following tables include combining statements of revenues, expenses and changes in net position information for the Authority and its component unit for the years ended June 30, 2020 and 2019.

	<u>2020</u>			<u>2019</u>		
	<u>Uvalde County Hospital Authority</u>	<u>Uvalde Medical and Surgical Associates</u>	<u>Combined Balance</u>	<u>Uvalde County Hospital Authority</u>	<u>Uvalde Medical and Surgical Associates</u>	<u>Combined Balance</u>
Operating Revenues						
Net patient service revenue, net of provision for uncollectible accounts	\$ 63,194,765	\$ 2,606,015	\$ 65,800,780	\$ 63,956,884	\$ 2,466,690	\$ 66,423,574
Nursing facility revenue	227,040,986	-	227,040,986	219,118,855	-	219,118,855
Other	5,454,048	42,704	5,496,752	3,937,107	54,033	3,991,140
Total operating revenues	<u>295,689,799</u>	<u>2,648,719</u>	<u>298,338,518</u>	<u>287,012,846</u>	<u>2,520,723</u>	<u>289,533,569</u>
Operating Expenses						
Salaries and wages	25,373,155	1,415,401	26,788,556	24,296,241	1,275,932	25,572,173
Employee benefits and payroll taxes	9,062,721	627,093	9,689,814	8,739,128	588,458	9,327,586
Purchased services and professional fees	6,344,006	2,375,840	8,719,846	6,425,109	2,351,320	8,776,429
Nursing facility fees	219,027,014	-	219,027,014	181,048,837	-	181,048,837
Supplies and other	11,011,417	765,958	11,777,375	43,980,926	741,579	44,722,505
Depreciation and amortization	4,134,615	622	4,135,237	2,467,722	622	2,468,344
Gain on sale of capital assets	-	-	-	(1,250)	-	(1,250)
Total operating expenses	<u>274,952,928</u>	<u>5,184,914</u>	<u>280,137,842</u>	<u>266,956,713</u>	<u>4,957,911</u>	<u>271,914,624</u>
Operating Income (Loss)	<u>20,736,871</u>	<u>(2,536,195)</u>	<u>18,200,676</u>	<u>20,056,133</u>	<u>(2,437,188)</u>	<u>17,618,945</u>
Nonoperating Revenues (Expenses)						
Interest income	1,122,764	-	1,122,764	1,153,912	62	1,153,974
Interest expense	(8,410)	-	(8,410)	-	-	-
Bond issuance costs	(1,051,186)	-	(1,051,186)	-	-	-
Noncapital grants and gifts	148,270	116,962	265,232	104,142	-	104,142
Noncapital sales tax appropriations, Uvalde County	1,010,436	-	1,010,436	983,510	-	983,510
Contributed services	674,044	-	674,044	640,645	-	640,645
Total nonoperating revenues	<u>1,895,918</u>	<u>116,962</u>	<u>2,012,880</u>	<u>2,882,209</u>	<u>62</u>	<u>2,882,271</u>
Increase (Decrease) in Net Position	<u>22,632,789</u>	<u>(2,419,233)</u>	<u>20,213,556</u>	<u>22,938,342</u>	<u>(2,437,126)</u>	<u>20,501,216</u>
Net Position, Beginning of Year	<u>171,641,913</u>	<u>(22,949,327)</u>	<u>148,692,586</u>	<u>148,703,570</u>	<u>(20,512,200)</u>	<u>128,191,370</u>
Net Position, End of Year	<u>\$ 194,274,702</u>	<u>\$ (25,368,560)</u>	<u>\$ 168,906,142</u>	<u>\$ 171,641,912</u>	<u>\$ (22,949,326)</u>	<u>\$ 148,692,586</u>

Uvalde County Hospital Authority
Notes to Financial Statements
June 30, 2020 and 2019

The following table includes condensed combining statements of cash flow information for the Authority and its component unit for the years ended June 30, 2020 and 2019.

	2020			2019		
	Uvalde County Hospital Authority	Uvalde Medical and Surgical Associates	Combined Balance	Uvalde County Hospital Authority	Uvalde Medical and Surgical Associates	Combined Balance
Net Cash Provided by (Used in) Operating Activities	\$ 22,729,373	\$ (655,207)	\$ 22,074,166	\$ 15,317,616	\$ 360,876	\$ 15,678,492
Net Cash Provided by Noncapital Financing Activities	25,418,999	116,962	25,535,961	1,087,652	-	1,087,652
Net Cash Used in Capital and Related Financing	(13,238,722)	-	(13,238,722)	(2,232,274)	-	(2,232,274)
Net Cash Provided by (Used in) Investing Activities	<u>22,855,669</u>	<u>-</u>	<u>22,855,669</u>	<u>(16,428,179)</u>	<u>62</u>	<u>(16,428,117)</u>
Increase (Decrease) in Cash	57,765,319	(538,245)	57,227,074	(2,255,185)	360,938	(1,894,247)
Cash Beginning of Year	<u>14,650,935</u>	<u>679,493</u>	<u>15,330,428</u>	<u>16,906,120</u>	<u>318,555</u>	<u>17,224,675</u>
Cash End of Year	<u>\$ 72,416,254</u>	<u>\$ 141,248</u>	<u>\$ 72,557,502</u>	<u>\$ 14,650,935</u>	<u>\$ 679,493</u>	<u>\$ 15,330,428</u>