GONZALES HEALTHCARE SYSTEMS
GONZALES, TEXAS

AS OF AND FOR THE YEARS ENDED
JUNE 30, 2020 AND 2019

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Management
Gonzales Healthcare Systems
Gonzales, Texas

We have audited the accompanying combined statements of net position of Gonzales Healthcare Systems and Gonzales Healthcare Systems Foundation, a component unit of Gonzales Healthcare Systems (collectively referred to as the "Hospital"), as of June 30, 2020 and 2019 and the related combined statements of revenues, expenses and changes in net position and combined statements of cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Combined Financial Statements

Management is responsible for the preparation and fair presentation of these combined 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 combined financial statements that are free of material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined 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 combined financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the combined financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to Gonzales Healthcare Systems' preparation and fair presentation of the combined 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 Gonzales Healthcare Systems' 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 combined financial statements.

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

Opinions

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the respective combined financial position of Gonzales Healthcare Systems and Gonzales Healthcare Systems Foundation, a component unit of Gonzales Healthcare Systems as of June 30, 2020 and 2019, and the respective changes in its combined financial position and its combined cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages A-1 through A-5 be presented to supplement the basic combined financial statements. Such information, although not a part of the basic combined 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 combined 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 combined financial statements, and other knowledge we obtained during our audit of the basic combined 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.

Durbin & Company, L.L.P.

Durbin & Company, L.L.P.
Lubbock, Texas
April 6, 2021

GONZALES HEALTHCARE SYSTEMS
GONZALES, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEARS ENDED
JUNE 30, 2020 AND 2019

GONZALES HEALTHCARE SYSTEMS

UNAUDITED
MANAGEMENTS' DISCUSSION AND ANALYSIS
AND COMBINED FINANCIAL STATEMENTS
JUNE 30, 2020 AND 2019

Our discussion and analysis of Gonzales Healthcare Systems and Gonzales Healthcare Systems Foundation's, a component unit of Gonzales Healthcare Systems (the "Hospital") financial performance provides an overview of the Hospital's combined financial activities for the fiscal years ended June 30, 2020 and 2019. Please read it in conjunction with the Hospital's combined financial statements, which begin on page 1.

FINANCIAL HIGHLIGHTS

- The Hospital's combined net position reflects a 13.9% or $5,727,177 increase in 2020. Fiscal year 2019 increased 10.9% or $4,046,004.

- The Hospital reported operating losses in 2020 and 2019 of ($8,290,140) and ($5,301,891), respectively. The operating loss in 2020 increased by $2,988,249 or 56.4% over the operating loss reported in 2019. The operating loss in 2019 decreased by $1,587,596 or 23.0% over the operating loss reported in 2018.

- Nonoperating revenues (expenses) increased by $4,572,927 or 49.8% in 2020, compared to 2019, and increased by $793,409 or 9.5% in 2019, compared to 2018.

USING THIS ANNUAL REPORT

The Hospital's combined financial statements consist of three statements, a Combined Statement of Net Position; a Combined Statement of Revenues, Expenses and Changes in Net Position; and a Combined Statement of Cash Flows. These combined financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, and enabling legislation.

The Combined Statement of Net Position and Combined Statement of Revenues, Expenses, and Changes in Net Position

Our analysis of the Hospital's finances begins on page A-2. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Combined Statement of Net Position and the Combined Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital'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. 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 Hospital's combined net position and changes in them. You can think of the Hospital's combined net position—the difference between assets and liabilities—as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's combined net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to access the overall health of the Hospital.

The Combined Statement of Cash Flows

The final required statement is the Combined Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing 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 balance during the reporting period?"

THE HOSPITAL'S COMBINED NET POSITION

The Hospital's combined net position is the difference between its assets and liabilities reported in the Combined Statement of Net Position on page 2. The Hospital's combined net position increased by $5,727,177 or 13.9% in 2020, and increased by $4,046,004 or 10.9% in 2019, as you can see from **Table 1**.

Table 1: Assets, Liabilities, and Net Position

	2020	2019	2018
Assets:			
Current Assets	$ 35,796,828	$ 23,818,994	$ 19,215,091
Capital Assets (net)	21,162,937	22,013,283	23,400,742
Other Non-Current Assets	650,032	638,470	510,308
Total Assets	$ 57,609,797	$ 46,470,747	$ 43,126,141
Liabilities:			
Long-Term Debt Outstanding	$ 2,761,800	$ 905,000	$ 1,461,791
Other Current and Non-Current	5,179,648	4,254,150	4,398,757
Total Liabilities	7,941,448	5,159,150	5,860,548
Deferred Inflows of Resources:			
Provider Relief Funds	2,629,575	-	-
Net Position:			
Net Investment in Capital Assets	18,401,137	21,108,283	21,938,951
Restricted:			
Capital Acquisitions and Scholarships	607,269	597,093	454,273
Unrestricted	28,030,368	19,606,221	14,872,369
Total Net Position	47,038,774	41,311,597	37,265,593
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 57,609,797	$ 46,470,747	$ 43,126,141

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S COMBINED NET POSITION

The Hospital's combined net position increased by $5,727,177 or 13.9% in 2020, and increased by $4,046,004 or 10.9% in 2019. This change is made up of different components, as shown in **Table 2**.

Table 2: Operating Results and Changes in Combined Net Position

	2020	2019	2018
Operating Revenues:			
Net Patient Service Revenue	$26,334,055	$25,277,669	$23,642,876
Nursing Home Revenue	20,126,546	17,909,550	17,356,263
Electronic Health Records Incentive Revenue	-	-	59,780
Other Operating Revenue	727,239	2,388,314	1,873,903
Total Operating Revenue	47,187,840	45,575,533	42,932,822
Operating Expenses:			
Salaries, Wages and Benefits	15,381,403	13,468,582	15,009,663
Other Operating Expenses	18,682,822	17,741,476	15,764,891
Nursing Home	18,915,400	17,318,208	16,657,757
Depreciation / Amortization	2,498,355	2,349,158	2,389,998
Total Operating Expenses	55,477,980	50,877,424	49,822,309
Operating Loss	(8,290,140)	(5,301,891)	(6,889,487)
Nonoperating Revenues (Expenses):			
Property Tax Revenue	9,368,818	8,707,701	7,832,767
Noncapital Grants / Contributions	100,752	31,895	71,828
COVID-19 Federal Financial Assistance	3,744,629	-	-
Community Benefit Support	763,619	770,191	1,152,515
Intergovernmental Transfer	(522,942)	(592,143)	(778,726)
Investment Income	161,307	155,327	56,407
Interest Expense	(31,404)	(55,223)	(84,915)
Tobacco Settlement Revenue	166,561	160,665	133,995
Gain on Disposal of Assets	-	-	1,133
Total Nonoperating Revenues (Expenses)	13,751,340	9,178,413	8,385,004
Excess of Revenues over Expenses Before Capital Grants and Contributions	5,461,200	3,876,522	1,495,517
Capital Grants and Contributions	265,977	169,482	748,378
Increase in Net Position	5,727,177	4,046,004	2,243,895
Net Position, Beginning of Year	41,311,597	37,265,593	35,021,698
Net Position, End of Year	$47,038,774	$41,311,597	$37,265,593

Operating Losses

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

The primary components of the increased operating loss in 2020 are:

- An increase in net patient service revenue of $1,056,386 or 4.2%.
- A decrease in other operating revenues of $1,661,075 or 3.5%.
- An increase in salaries, wages and benefit expense of $1,912,821 or 14.2%.

The primary components of the decreased operating loss in 2019 are:

- An increase in net patient service revenue of $1,634,793 or 6.9%.
- An increase in other operating revenues of $514,411 or 27.5%.
- A decrease in salaries and benefits expenses of $1,541,081 or 10.3%.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of property taxes levied by the Hospital along with community benefit support, intergovernmental transfer expense, interest income, and interest expense. Property tax revenue for 2020 and 2019 was $9,368,818 and $8,707,701, respectively. The increase in property tax revenue is attributable to the increase in assessed property values.

THE HOSPITAL'S COMBINED CASH FLOWS

Changes in the Hospital's combined cash flows are consistent with changes in operating losses and nonoperating revenues and expenses, previously discussed.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2020 and 2019, the Hospital had $21,162,937 and $22,013,283, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 10 of the audited combined financial statements. The Hospital purchased $1,648,009 and $961,699 in capital assets in fiscal years 2020 and 2019, respectively.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Debt

At June 30, 2020 and 2019, the Hospital had $2,761,800 and $905,000, respectively, in long-term debt outstanding as disclosed in Note 11 of the audited combined financial statements. During fiscal years 2020 and 2019, the Hospital made principal payments of $440,000 and $556,791, respectively, on outstanding debt. During 2020, the Hospital issued a Paycheck Protection Program ("PPP") loan in the amount of $2,296,800, as detailed in Note 11 of the financial statements. The Hospital made no payments on the PPP loan during 2020.

CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Chief Financial Officer, at Gonzales Healthcare Systems, 1110 Sarah Dewitt Drive, Gonzales, Texas 78629.

GONZALES HEALTHCARE SYSTEMS
GONZALES, TEXAS

COMBINED FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED
JUNE 30, 2020 AND 2019

GONZALES HEALTHCARE SYSTEMS

COMBINED STATEMENTS OF NET POSITION

AS OF JUNE 30, 2020 AND 2019

ASSETS:	2020	2019
CURRENT ASSETS		
Cash and Cash Equivalents	$ 23,054,597	$ 12,885,199
Assets Whose Use is Limited - Internally Designated	1,303,744	1,034,701
Patient Accounts Receivable, Net of Allowance	2,395,752	3,188,357
Accounts Receivable - Nursing Home	5,157,711	3,306,028
Estimated Third-Party Payor Settlements	337,022	37,094
Other Receivables	2,079,715	2,202,450
Inventory of Supplies	513,404	347,763
Prepaid and Other Current Assets	918,494	774,902
Property Taxes Receivable	36,389	42,500
Total Current Assets	35,796,828	23,818,994
RESTRICTED ASSETS	607,269	597,093
CAPITAL ASSETS,		
Net of Accumulated Depreciation	21,162,937	22,013,283
OTHER ASSETS	42,763	41,377
Total Assets	$ 57,609,797	$ 46,470,747

The accompanying notes are an integral part of these combined financial statements.

GONZALES HEALTHCARE SYSTEMS

COMBINED STATEMENTS OF NET POSITION

AS OF JUNE 30, 2020 AND 2019

LIABILITIES AND NET POSITION:	2020	2019
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 1,347,057	$ 440,000
Accounts Payable	539,270	820,065
Accounts Payable - Nursing Home	1,721,477	2,032,957
Accrued Payroll, Benefits, and Related Liabilities	1,077,712	823,998
Self Funded Health Insurance	260,000	140,000
Other Accrued Liabilities	1,581,189	437,130
Total Current Liabilities	6,526,705	4,694,150
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Portion	1,414,743	465,000
Total Liabilities	7,941,448	5,159,150
DEFERRED INFLOWS OF RESOURCES		
Provider Relief Funds	2,629,575	-
NET POSITION		
Net Investment in Capital Assets	18,401,137	21,108,283
Restricted:		
Capital Acquisitions and Scholarships	607,269	597,093
Unrestricted	28,030,368	19,606,221
Total Net Position	47,038,774	41,311,597
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 57,609,797	$ 46,470,747

The accompanying notes are an integral part of these combined financial statements.

GONZALES HEALTHCARE SYSTEMS

COMBINED STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
OPERATING REVENUES:		
Net Patient Service Revenue	$26,334,055	$25,277,669
Nursing Home Revenue	20,126,546	17,909,550
Other Revenue	727,239	2,388,314
Total Operating Revenues	47,187,840	45,575,533
OPERATING EXPENSES:		
Salaries and Wages	12,466,463	11,155,347
Employee Benefits	2,914,940	2,313,235
Professional Fees and Purchased Services	11,060,297	10,337,381
Supplies and Other	7,622,525	7,404,095
Nursing Home	18,915,400	17,318,208
Depreciation and Amortization	2,498,355	2,349,158
Total Operating Expenses	55,477,980	50,877,424
Operating Loss	(8,290,140)	(5,301,891)
NONOPERATING REVENUES (EXPENSES):		
Property Tax Revenue	9,368,818	8,707,701
Noncapital Grants and Contributions	100,752	31,895
COVID-19 Federal Financial Assistance	3,744,629	-
Community Benefit Support	763,619	770,191
Intergovernmental Transfer	(522,942)	(592,143)
Investment Income	161,307	155,327
Interest Expense	(31,404)	(55,223)
Tobacco Settlement Revenue	166,561	160,665
Total Nonoperating Revenues (Expenses)	13,751,340	9,178,413
Excess of Revenues Over Expenses Before Capital Grants and Contributions	5,461,200	3,876,522
Capital Grants and Contributions	265,977	169,482
Increase in Net Position	5,727,177	4,046,004
Net Position, Beginning of Year	41,311,597	37,265,593
Net Position, End of Year	$47,038,774	$41,311,597

The accompanying notes are an integral part of these combined financial statements.

GONZALES HEALTHCARE SYSTEMS

COMBINED STATEMENTS OF CASH FLOWS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on Behalf of Patients	$ 45,223,875	$ 42,409,217
Payments to Suppliers and Contractors	(36,550,717)	(34,420,860)
Payments to Employees	(15,080,726)	(13,405,183)
Other Receipts and Payments, net	789,796	2,035,631
Net Cash Used by Operating Activities	(5,617,772)	(3,381,195)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Earnings	161,026	152,011
Purchase of Investments	(8,606)	(49,718)
Net Cash Provided by Investing Activities	152,420	102,293
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Grants and Contributions	265,977	169,482
Property Taxes Restricted for Capital Activities	475,405	491,018
Principal Payments on Long-Term Debt	(440,000)	(556,791)
Interest Payments on Long-Term Debt	(40,174)	(64,228)
Purchase of Capital Assets	(1,648,009)	(961,699)
Net Cash Used by Capital and Related Financing Activities	(1,386,801)	(922,218)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property Taxes	8,899,524	8,226,045
Noncapital Grants and Contributions	100,752	31,895
COVID-19 Federal Financial Assistance	6,374,204	-
Payments for Intergovernmental Transfers	(545,677)	(1,080,947)
Proceeds From Issuance of Long-Term Debt and Notes Payable	2,296,800	-
Proceeds From Tobacco Settlement	166,561	160,665
Net Cash Provided by Noncapital Financing Activities	17,292,164	7,337,658
Net Increase in Cash and Cash Equivalents	10,440,011	3,136,538
Cash and Cash Equivalents, Beginning of Year	14,112,975	10,976,437
Cash and Cash Equivalents, End of Year	$ 24,552,986	$ 14,112,975

The accompanying notes are an integral part of these combined financial statements.

GONZALES HEALTHCARE SYSTEMS

COMBINED STATEMENTS OF CASH FLOWS (CONTINUED)

AS OF AND FOR THE YEARS ENDED JUNE 30, 2020 AND 2019

	2020	2019
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE COMBINED STATEMENTS OF NET POSITION:		
Cash and Cash Equivalents Presented Under the Following Titles:		
Cash and Cash Equivalents	$ 23,054,597	$ 12,885,199
Assets Whose Use is Limited - Current	1,303,744	1,034,701
Restricted Assets	194,645	193,075
	$ 24,552,986	$ 14,112,975
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating Loss	$ (8,290,140)	$ (5,301,891)
Adjustments to Reconcile Operating Loss to Net Cash Flows Used by Operating Activities:		
Depreciation and Amortization	2,498,355	2,349,158
Provision for Bad Debts	3,448,603	3,779,460
Community Benefit Support	763,619	770,191
(Increase) Decrease in:		
Accounts Receivable	(2,655,998)	(4,494,022)
Accounts Receivable - Nursing Home	(1,851,683)	(327,011)
Prepaid Expenses and Other Current Assets	(163,482)	(672,403)
Estimated Third-Party Payor Settlements	(299,928)	147,463
Other Long-Term Assets	(1,386)	14,658
Increase (Decrease) in:		
Accounts Payable	(280,795)	97,848
Accounts Payable - Nursing Home	(311,480)	110,101
Accrued Salaries and Benefits Payable	253,714	(21,259)
Other Accrued Liabilities	1,272,829	166,512
Net Cash Used By Operating Activities	$ (5,617,772)	$ (3,381,195)

The accompanying notes are an integral part of these combined financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Gonzales Healthcare Systems (the "Hospital"), is an acute care hospital located in Gonzales, Texas, is a political subdivision created and operating under the laws of the State of Texas. Operations consist of a 36-bed hospital administered through a Board of Directors (the Board) elected by the citizens of the District. The Hospital primarily earns revenues by providing inpatient, outpatient, and emergency services to residents of Gonzales, Texas.

The Gonzales Healthcare Systems Foundation (the "Foundation") is a Texas non-profit health organization and is classified as an organization exempt from Federal income tax under Internal Revenue Code (IRC) Section 501(c)(3). The Foundation was established in August 2008 in order to promote the health of the citizens of Gonzales County, Texas and surrounding communities by serving as a supporting organization, as defined in IRC Section 509(a)(1), of Gonzales Healthcare Systems. The Hospital is the sole corporate member and the Hospital shall appoint the Hospital's Chief Executive Officer and one member of the Hospital's board of directors to the Foundation's board of directors. Due to this control, the Foundation is reported as a blended component unit of the Hospital.

Enterprise Fund Accounting – The Hospital uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. The Hospital has elected to apply the provisions based on Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement.* The Hospital has also elected to apply the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position,* and GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities.*

Newly Adopted Accounting Pronouncement:

GASB Statement No. 95 – In May 2020, the Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance*. The objective of this Statement is to provide temporary relief to governments and other stakeholders in light of the COVID-19 pandemic. That objective is to be accomplished by postponing the effective dates of certain provisions in statements and implementation Guides that first became effective or are scheduled to become effective for reporting periods beginning after June 15, 2018, and later. The implementation of this statement had no effect on the change in net position.

Pending Adoption of Recent Accounting Pronouncements:

GASB Statement No. 88 – In April 2018, the Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Statement is effective for reporting periods beginning after June 15, 2019. The implementation of this statement had no effect on the change in net position.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pending Adoption of Recent Accounting Pronouncements (Continued):

GASB Statement No. 87 – In June 2017, the Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 87 – *Leases*. The objective of this Statement is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Statement is effective for reporting periods beginning after December 15, 2021. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

GASB Statement No. 89 – In June 2018, the Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 89 – *Accounting for Interest Cost Incurred Before the end of a Construction Period*. The objective of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The Statement is effective for reporting periods beginning after December 15, 2020. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

GASB Statement No. 90 – In June 2018, GASB issued GASB Statement No. 90 – *Majority Equity Interests*. The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The Statement is effective for periods beginning after December 15, 2019. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

GASB Statement No. 91 – Governmental Accounting Standards Board Statement No. 91, *Conduit Debt Obligations*. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for periods beginning after December 15, 2021.

Accounting Standards Update (ASU) No. 2017-09 – In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2019-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 was implemented by the FASB to determine whether an entity should recognize revenue. An entity should recognize revenue to depict the transfers of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to the entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal years beginning after December 15, 2019, with early implementation permitted. Management is currently evaluating the effects this pronouncement will have on the financial statements and related disclosures.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates - The preparation of combined financial statements in conformity with generally accepted accounting principles 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 combined financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates**.**

Cash and Cash Equivalents - The Hospital considers highly liquid investments with an original maturity of three months or less to be cash equivalents. At June 30, 2020 and 2019, cash equivalents consisted primarily of money market accounts with brokers and certificates of deposit.

Patient Accounts Receivable - The allowance for estimated uncollectible patient accounts receivable is maintained at a level which, in management's judgment, is adequate to absorb patient account balance write-offs inherent in the billing process. The amount of the allowance is based on management's evaluation of the collectability of patient accounts receivable, including the nature of the accounts, credit concentrations, trends in historical write-off experience, specific impaired accounts, and economic conditions. Allowances for uncollectibles and contractuals are generally determined by applying historical percentages to financial classes within accounts receivable. The allowances are increased by a provision for bad debt expenses and contractual adjustments, and reduced by write-offs, net of recoveries.

Inventory of Supplies - Inventory is stated at historical cost on the First-In, First-Out (FIFO) method.

Assets Whose Use is Limited – Assets whose use is limited include assets held by trustees under indenture agreements and designated assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital have been reclassified in the statements of net position at June 30, 2020 and 2019.

Capital Assets – Capital assets are recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. The Hospital provides for depreciation of capital assets by the straight-line method and at rates promulgated by the American Hospital Association, which are designed to amortize the cost of such equipment over its useful life. Equipment under capital lease obligations is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment life. Such amortization is included in depreciation and amortization in the combined financial statements. Except for capital assets acquired through gifts, contributions, or capital grants, interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The Hospital capitalizes acquisitions over $5,000 with a useful life listed below.

Land Improvements	5 to 25 years
Buildings and Improvements	25 to 40 years
Equipment	3 to 20 years
Leased Assets	5 years
Computer Software	3 to 5 years

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position – Net position of the Hospital is classified in three components: net investment in capital assets; restricted; and unrestricted. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

Operating Revenues and Expenses – For purposes of display, the Hospital's combined statement of revenues, expenses and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the Hospital's principal activity. Non-exchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Federal Income Taxes - The Hospital 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 Hospital is subject to federal income tax on any unrelated business taxable income.

The Foundation, a blended component unit of the Hospital, is exempt from federal income tax under section 501(c)(3) of the Internal Revenue Code, and is classified as an organization with foundation status under sections 509(a)(1) and 170(b)(1)(A)(vi) of the Code, and is not required to file an informational Form 990 return.

Charity Care – The Hospital has an obligation to provide indigent health care assistance to eligible residents of Gonzales County and surrounding communities. As part of its commitment to its community, the Hospital also provides medically indigent health care assistance to residents who do not qualify for indigent health care assistance but, who are unable to pay for health care services. The Hospital has set up specific rules, procedures and guidelines to comply with its responsibility to provide this indigent care in accordance with the applicable provisions of Texas Health and Safety Code, Chapter 61, and to provide charity health care assistance. Because the Hospital does not pursue the collection of amounts determined to qualify as charity care, charity care is excluded from net patient revenue.

Grants and Contributions – From time to time, the Hospital receives grants from state agencies and contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time 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 non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk Management - The Hospital 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 disaster; medical malpractice; and employee health, dental and accidental benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The Hospital is self-insured for a portion of its exposure to risk of loss from employee health claims. An annual estimated provision is accrued for the self-insured portion of employee health claims and includes an estimate of the ultimate cost for both claims and claims incurred but not yet reported.

Reclassifications – Certain amounts in the 2019 combined financial statements have been reclassified to conform to the 2020 combined financial statement presentation. These reclassifications had no effect on the change in net position.

NOTE 2 - NET PATIENT REVENUE

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

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

Medicaid – Inpatient and 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 Hospital is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits by the Medicaid fiscal intermediary.

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

Charity Care - The value of charity care provided by the Hospital based upon its established rates, was \$3,818,756 in 2020 and \$3,077,632 in 2019. ASU 2010-23 requires charity care to be disclosed on a cost basis. The Hospital utilizes the cost to charge ratios, as calculated based on its most recent cost reports, to determine the total cost. The Hospital's cost of providing charity care was estimated at approximately \$2,335,000 and \$1,765,000 for the years ended June 30, 2020 and 2019, respectively.

NOTE 2 - NET PATIENT SERVICE REVENUE (CONTINUED)

Net patient service revenue is comprised as follows:

	2020	2019
Routine Patient Services	$ 900,173	$ 1,007,162
Ancillary Patient Services		
Inpatient	7,337,012	8,992,754
Outpatient	40,458,848	40,470,869
Gross Patient Service Revenue	48,696,033	50,470,785
Charity	(3,818,756)	(3,077,632)
Third-Party Contractual Adjustments	(19,410,938)	(20,323,454)
Provision for Bad Debts	(3,448,603)	(3,779,460)
Medicaid Disproportionate Share and Other Credits	4,316,319	1,987,430
Net Patient Service Revenue	$26,334,055	$25,277,669

Estimated Third-Party Payor Settlements - Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Anticipated final settlement amounts from current and prior years' costs reports are recorded in the combined financial statements as they are determined by the Hospital. Estimated third-party payor settlements recorded in current assets as of June 30, 2020 and 2019 are $337,022 and $37,094, respectively.

NOTE 3 – SECTION 1115 DEMONSTRATION WAIVER PROGRAM

Uncompensated Care - The Hospital participated in the Section 1115 Demonstration Waiver Program, a program designed to benefit rural community hospitals. This program is facilitated through the Hospital providing an intergovernmental transfer whereby federal matching funds are provided to supplement the Hospital for the shortfall in Medicaid funding. In connection with this program, the Hospital provided intergovernmental transfers of $1,739,795 and $866,095, and received $4,444,149 and $2,018,392 for the years ended June 30, 2020 and 2019, respectively. The Hospital recognized net revenue of $2,704,354 and $1,152,297 for the years ended June 30, 2020 and 2019, respectively. The respective net revenue is included within net patient service revenue in the combined statements of revenues, expenses, and changes in net position.

NOTE 3 – SECTION 1115 DEMONSTRATION WAIVER PROGRAM (CONTINUED)

Indigent Care Affiliation - The Hospital is part of an indigent care affiliation agreement with the Service Organization of Southeast Texas, a non-profit corporation, and affiliated hospitals. This agreement is intended to increase funding for the Medicaid population and to access federal funding for the indigent population through the Texas Medicaid Supplemental Payment Program also known as the Private Upper Payment Limit Program. Under this program, the Hospital contributes certain governmental funds to the State of Texas. The Service Organization of Southeast Texas then provides care to the Medicaid and non-Medicaid indigent in the region and surrounding communities. These services were valued at $763,619 and $770,191 for the years ended June 30, 2020 and 2019, respectively. As part of the affiliation agreement, the Hospital provided $545,677 and $1,080,947 in funding to the program for the years ended June 30, 2020 and 2019, respectively.

Uniform Hospital Rate Increase Program – The Hospital participated in the Uniform Hospital Rate Increase Program (UHRIP), a program designed to direct a Medicaid managed care organization (MCO) to provide a uniform percentage rate increase to hospitals in the MCO's network in a participating service delivery area for the provision of inpatient services, outpatient services, or both. The State of Texas determines eligibility for rate increases by the service delivery area or the class of the hospital. This program is facilitated through the Hospital providing an intergovernmental transfer whereby federal matching funds are provided to supplement the Hospital's shortfall in Medicaid funding. In connection with this program, the Hospital provided intergovernmental transfers of $290,177 and $102,556 for the years ended June 30, 2020 and 2019, respectively. Additionally, the Hospital recorded prepaid UHRIP IGT as of June 30, 2020 and 2019 in the amount of $194,798 and $102,556, respectively.

NOTE 4 – NURSING HOME OPERATIONS

The Heights of Gonzales - Effective December 31, 2013, the Hospital entered into an operations transfer agreement (transfer agreement) with Touchstone Strategies, LLC for the transfer of certain operating assets and operations of The Heights of Gonzales (Nursing Home), a skilled nursing and rehabilitation facility located in Gonzales, Texas. Pursuant to this agreement, the Hospital has obtained an operating license from the Texas Department of Aging a Disability to operate the Nursing Home.

The Hospital has also received an assignment or transfer of the Medicare and Medicaid Provider agreements. In addition to the transfer agreement, the Hospital has also entered into a lease agreement with Touchstone Reality—Gonzales LLC for the lease of real property and fixed assets and associated equipment that encompass the nursing home's physical property. The original term of the lease agreement is December 31, 2013 through December 31, 2015, unless sooner terminated. The lease shall continue for successive two year terms unless previously cancelled in writing by either party prior to the expiration of the initial term or the current extension term. Under the agreement, the base rent is $74,990 per month to be renegotiated during each extension term. Also in connection with this transfer agreement, the Hospital has recorded all patient revenue and the related accounts receivable.

NOTE 4 – NURSING HOME OPERATIONS (CONTINUED)

Also effective December 31, 2013, The Hospital has executed a management and operations agreement with Touchstone Strategies, LLC, whereby Touchstone will manage and operate the Nursing Home. The initial term of this agreement is from December 31, 2013 through December 31, 2015, unless sooner terminated. The agreement shall be automatically renewed for two consecutive two year periods unless either party cancels in writing on or before 90 days prior to the end of the current term. Under this agreement, the Hospital shall pay Touchstone Strategies, LLC a base management fee equal to 12% of operating revenue on the 15th and 30th day of each month on a pro rata basis. Additionally, the Hospital must pay Touchstone Strategies, LLC a per diem census fee of $150 per actual occupied bed day for the preceding month. The amount of each monthly per diem census fee will be reduced by any payments made by the Hospital under the lease and not previously reimbursed. If there are insufficient operating revenue funds to pay the base management fee and/or the per diem census fee in any month, the shortfall shall accrue as a liability to the Hospital. The Hospital is also required to pay a supplemental management fee equal to 50% of total other revenue collected by the Hospital in connection with the operation of the Nursing Home. In addition, 10% of the total other revenue collected by the Hospital in connection with the operation of the Nursing Home shall be deposited into a quality incentive reserve account for which Touchstone Strategies, shall be eligible to receive up to the full amount for the achievement of mutually agreed upon quality incentive criteria. For the years ended June 30, 2020 and 2019, the Hospital recorded total fees and expenses of $9,139,746 and $8,147,575, respectively. These expenses are included in Nursing Home expenses on the combined statements of revenues, expenses, and changes in net position. Of this amount, $1,721,477 and $1,689,927 is recorded as a liability in Nursing Home Payable on the combined statements of net position as of June 30, 2020 and 2019, respectively.

Texan Nursing & Rehab of Gonzales - Effective January 1, 2015, the Hospital entered into an operations transfer agreement (transfer agreement) with Gonzales Nursing Operations, LLC for the transfer of certain operating assets and operations of Texan Nursing & Rehab of Gonzales (Texan Nursing Home), a skilled nursing and rehabilitation facility located in Gonzales, Texas. Pursuant to this agreement, the Hospital has obtained an operating license from the Texas Department of Aging a Disability to operate the Texan Nursing Home. The Hospital has also received an assignment or transfer of the Medicare and Medicaid Provider agreements. In addition to the transfer agreement, the Hospital has also entered into a lease agreement with Gonzales Texas Property, LLC for the lease of real property and fixed assets and associated equipment that encompass the nursing home's physical property. The original term of the lease agreement is January 1, 2015 through August 31, 2016, unless sooner terminated. The lease shall continue for successive two year terms unless previously cancelled in writing by either party prior to the expiration of the initial term or the current extension term. Under the agreement, the base rent is $26,507 per month to be renegotiated during each extension term. Also in connection with this transfer agreement, the Hospital has recorded all patient revenue and the related accounts receivable.

NOTE 4 – NURSING HOME OPERATIONS (CONTINUED)

Also effective January 1, 2015, The Hospital has executed a management and operations agreement with Gonzales Nursing Operations, LLC, whereby Gonzales Nursing Operations, LLC will manage and operate the Texan Nursing Home. The initial term of this agreement is from January 1, 2015 through August 31, 2016, unless sooner terminated. The agreement shall be automatically renewed for two consecutive two year periods unless either party cancels in writing on or before 90 days prior to the end of the current term. Under this agreement, the Hospital shall pay Gonzales Nursing Operations, LLC a base management fee equal to 5% of ordinary revenues on a pro rata basis within five business days after the closing of the previous month's books. Additionally, the Hospital must pay Gonzales Nursing Operations, LLC incentive payments equal to 50% of net operating income within five business days after the closing of the previous month's books. For the years ended June 30, 2020 and 2019, the Hospital recorded total fees and expenses of $4,067,378 and $4,055,853, respectively. The expenses are included in Nursing Home expenses on the combined statements of revenues, expenses, and changes in net position.

Magnolia Living & Rehabilitation - Effective January 1, 2015, the Hospital entered into an operations transfer agreement (transfer agreement) with Luling Nursing Operations, LLC for the transfer of certain operating assets and operations of Magnolia Living & Rehabilitation (Magnolia Nursing Home), a skilled nursing and rehabilitation facility located in Luling, Texas. Pursuant to this agreement, the Hospital has obtained an operating license from the Texas Department of Aging a Disability to operate the Magnolia Nursing Home. The Hospital has also received an assignment or transfer of the Medicare and Medicaid Provider agreements. In addition to the transfer agreement, the Hospital has also entered into a lease agreement with Magnolia Drive Property, LLC for the lease of real property and fixed assets and associated equipment that encompass the nursing home's physical property. The original term of the lease agreement is January 1, 2015 through August 31, 2016, unless sooner terminated. The lease shall continue for successive two year terms unless previously cancelled in writing by either party prior to the expiration of the initial term or the current extension term. Under the agreement, the base rent is $35,044 per month to be renegotiated during each extension term. Also in connection with this transfer agreement, the Hospital has recorded all patient revenue and the related accounts receivable.

Also effective January 1, 2015, The Hospital has executed a management and operations agreement with Luling Nursing Operations, LLC, whereby Luling Nursing Operations, LLC will manage and operate the Magnolia Nursing Home. The initial term of this agreement is from January 1, 2015 through August 31, 2016, unless sooner terminated. The agreement shall be automatically renewed for two consecutive two year periods unless either party cancels in writing on or before 90 days prior to the end of the current term. Under this agreement, the Hospital shall pay Luling Nursing Operations, LLC a base management fee equal to 5% of ordinary revenues on a pro rata basis within five business days after the closing of the previous month's books. Additionally, the Hospital must pay Luling Nursing Operations, LLC incentive payments equal to 50% of net operating income within five business days after the closing of the previous month's books. For the years ended June 30, 2020 and 2019, the Hospital recorded total fees and expenses of $5,708,276 and $5,114,780, respectively. The expenses are included in Nursing Home expenses on the combined statements of revenues, expenses, and changes in net position. Of this amount, $-0- and $343,030 is recorded as a liability in Nursing Home Payable on the combined statements of net position as of June 30, 2020 and 2019, respectively.

NOTE 4 – NURSING HOME OPERATIONS (CONTINUED)

Quality Incentive Payment Program (QIPP) **–** During its 84th session, the Texas Legislature directed HHSC to transition to a new Quality Incentive Payment Program (QIPP) effective September 1, 2016, and HHSC implemented QIPP on September 1, 2017. QIPP requires participating facilities that meet certain qualifying criteria to submit projects to HHSC requesting the additional funding as supported in the individual projects. These projects are expected to improve quality and innovation in the provision of nursing facility services, including but not limited to payment incentives to establish culture change, small house models, staffing enhancements and outcome measures to improve the quality of care and life for nursing facility residents. A portion of the additional funding is funded through intergovernmental transfer (IGT) payments from each participating provider. QIPP IGTs for a specific capitation rate period are due to HHSC approximately six months prior to the beginning of the rate period. In connection with this program, the Hospital provided intergovernmental transfers of approximately $1,267,000 and $1,324,000 for the years ended June 30, 2020 and 2019, respectively. Of this amount, approximately $801,000 and $910,000 is recorded in other receivables on the combined statements of net position as of June 30, 2020 and 2019, respectively. The hospital recognized net revenue of approximately $1,487,000 and $1,011,000 for the years ended June 30, 2020 and 2019, respectively.

NOTE 5 - DEPOSITS WITH FINANCIAL INSTITUTIONS

At June 30, 2020 and 2019, the carrying amount of the Hospital's deposits with financial institutions was $24,963,115 and $14,514,598, respectively, and the bank balance was $25,236,886 and $14,813,173, respectively. The bank balance is categorized as follows:

	2020	2019
Amount Insured by the FDIC	$ 1,196,373	$ 1,160,335
Amount Collateralized with Securities Held by the Pledging Financial Institution's Trust Department in the Hospital's Name	24,040,513	13,652,838
Total Bank Balance	$25,236,886	$14,813,173

NOTE 6 – PATIENT ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at June 30:

	2020	2019
Gross Accounts Receivable	$ 5,356,885	$ 7,331,336
Less: Allowance for Bad Debts	(1,417,272)	(2,174,753)
Allowance for Contractuals	(1,543,861)	(1,968,226)
Accounts Receivable, Net of Allowance	$ 2,395,752	$ 3,188,357

NOTE 6 – PATIENT ACCOUNTS RECEIVABLE (CONTINUED)

Concentration of Credit Risk - The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2020 and 2019 is as follows:

	2020	2019
Medicare	31%	29%
Medicaid	9%	8%
Other Third-Party Payors	27%	22%
Patients	33%	41%
Total	100%	100%

NOTE 7 – ASSETS WHOSE USE IS LIMITED AND RESTRICTED ASSETS

The composition of assets whose use is limited and restricted assets as of June 30, 2020 and 2019 is set forth in the following table:

	2020	2019
Internally Designated for Capital Acquisitions:		
Cash and Cash Equivalents	$ 479,792	$ 209,093
Internally Designated for Nursing Home Operations:		
Cash and Cash Equivalents	49,072	72,145
Internally Designated for Debt Service:		
Cash and Cash Equivalents	774,880	753,463
Total Assets Whose Use is Limited	1,303,744	1,034,701
Restricted for Capital Acquisitions and Scholarships:		
Cash and Cash Equivalents	194,645	193,075
Certificates of Deposit - Long-Term	412,624	404,018
Total Restricted for Capital Acquisitions and Scholarships	607,269	597,093
Total Assets Whose Use is Limited and Restricted Assets	1,911,013	1,631,794
Less: Current Portion	(1,303,744)	(1,034,701)
Noncurrent Portion	$ 607,269	$ 597,093

NOTE 8 – RESTRICTED NET POSITION

At June 30, 2020 and 2019, restricted expendable net position was available for the following purposes:

	2020	2019
Restricted for Capital Acquisitions and Scholarships:		
Cash and Cash Equivalents	$ 194,645	$ 193,075
Certificates of Deposit	412,624	404,018
Total Restricted Expendable Net Position	$ 607,269	$ 597,093

NOTE 9 – TAXES RECEIVABLE

Property taxes are levied on October 1 of each year and become delinquent as of February 1 of the following year. Taxes are reported as revenues in the period for which they are levied. Tax revenue, net of related expenses for 2020 and 2019 was $9,368,818 and $8,707,701, respectively. As of June 30, 2020 and 2019, the balance of property taxes receivable and its related allowance for uncollectible taxes are as follows:

	2020	2019
Property Taxes Receivable	$ 962,010	$ 1,027,943
Less: Allowance for Uncollectible Taxes	(925,621)	(985,443)
Taxes Receivable, Net of Allowance	$ 36,389	$ 42,500

NOTE 10 – CAPITAL ASSETS

Capital assets additions, retirements, and balances were as follows for the years ended June 30:

	Balance 06/30/19	Additions	Reclass/ Retirements	Balance 06/30/20
Land	$ 440,182	$ -	$ -	$ 440,182
Land Improvements	264,965	-	-	264,965
Building and Improvements	27,470,096	100,848	-	27,570,944
Equipment	21,875,256	1,546,163	-	23,421,419
Construction in Progress	9,998	998	-	10,996
Totals at Historical Cost	50,060,497	1,648,009	-	51,708,506
Less Accumulated Depreciation:				
Land Improvements	(262,790)	(4,816)	-	(267,606)
Building and Improvements	(9,116,711)	(1,239,576)	-	(10,356,287)
Equipment	(18,667,713)	(1,253,963)	-	(19,921,676)
Total Accumulated Depreciation	(28,047,214)	(2,498,355)	-	(30,545,569)
Capital Assets, Net	$ 22,013,283	$ (850,346)	$ -	$ 21,162,937

NOTE 10 – CAPITAL ASSETS (CONTINUED)

Capital assets additions, retirements, and balances were as follows for the years ended June 30:

	Balance 06/30/18	Additions	Reclass/ Retirements	Balance 06/30/19
Land	$ 440,182	$ -	$ -	$ 440,182
Land Improvements	264,965	-	-	264,965
Building and Improvements	27,346,478	123,618	-	27,470,096
Equipment	21,047,173	828,083	-	21,875,256
Construction in Progress	-	9,998	-	9,998
Totals at Historical Cost	49,098,798	961,699	-	50,060,497
Less Accumulated Depreciation:				
Land Improvements	(253,864)	(8,926)	-	(262,790)
Building and Improvements	(7,886,406)	(1,230,305)	-	(9,116,711)
Equipment	(17,557,786)	(1,109,927)	-	(18,667,713)
Total Accumulated Depreciation	(25,698,056)	(2,349,158)	-	(28,047,214)
Capital Assets, Net	$ 23,400,742	$ (1,387,459)	$ -	$ 22,013,283

NOTE 11 – LONG-TERM DEBT

A schedule of changes in the Hospital's long-term debt consists of the following at June 30:

	Balance 06/30/19	Additions	Reductions	Balance 06/30/20	Due Within One Year
Bonds Payable:					
PPP Loan	$ -	$ 2,296,800	$ -	$ 2,296,800	$ 882,057
Series 2000 Bonds	905,000	-	(440,000)	465,000	465,000
Total Long-Term Debt	$ 905,000	$ 2,296,800	$ (440,000)	$ 2,761,800	$ 1,347,057

	Balance 06/30/18	Additions	Reductions	Balance 06/30/19	Due Within One Year
Bonds Payable:					
Series 2000 Bonds	$ 1,325,000	$ -	$ (420,000)	$ 905,000	$ 440,000
Capital Lease Obligations:					
Software Lease	136,791	-	(136,791)	-	-
Total Long-Term Debt:	$ 1,461,791	$ -	$ (556,791)	$ 905,000	$ 440,000

NOTE 11 – LONG-TERM DEBT (CONTINUED)

The terms and due dates of the Hospital's long-term debt at June 30, 2020 and 2019 is as follows:

- **PPP Loan:** On May 18, 2020, the Hospital was granted a Paycheck Protection Program ("PPP") loan in the amount of $2,296,800. The PPP loan is issued through the Small Business Administration. The purpose of the PPP loan is to provide a direct incentive for small businesses to maintain employment levels or increase their workforce. The PPP loan will be fully forgiven if the proceeds are to be used for payroll costs, interest on mortgages, rent, and utilities. If employment levels are not maintained, the PPP loan will not be fully forgiven, in which case, the loan is due with a maturity date of two years with interest at 1%.

- **Series 2000:** $6,000,000 Gonzales Healthcare Systems General Obligation Bonds, Series 2000, dated August 15, 2000. The Bonds are issued as serial bonds maturing August 15, 2001 through August 15, 2020. Interest is payable each February 15 and August 15 until maturity with varying interest rates from 4.65% to 5.60%. Proceeds from the sale of the Bonds were used for the construction, repair, and renovation of buildings and improvements and equipping the same for hospital purposes, and to pay the costs associated with the issuance of the Bonds. The Bonds constitute direct and voted general obligations of the Hospital payable from a continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property located within the Hospital's District.

Scheduled principal and interest repayments on long-term debt are as follows:

	Long-Term Debt	
For the Year Ending	Principal	Interest
June 30,		
2021	$ 1,347,057	$ 48,782
2022	1,414,743	7,083
Total	$ 2,761,800	$ 55,865

The amount of interest cost incurred for the years ended June 30, 2020 and 2019 was $31,404 and $55,223, respectively, all of which was charged to operations.

NOTE 12 – RETIREMENT PLAN

The Hospital has a defined contribution retirement plan also known as a Section 457 Plan. This plan covers substantially all employees meeting the plan requirements. Employee contributions to the plan are discretionary. The Hospital may match employee contributions up to 3%. For the years ended June 30, 2020 and 2019, the Hospital made contributions of $203,169 and $174,129, respectively, and employee contributions were $368,663 and $332,150, respectively.

NOTE 13 – COMMITMENTS AND CONTINGENCIES

Litigation – The Hospital is from time to time subject to claims and suits for damages, including damages for personal injuries to patients and others, most of which are covered as to risk and amount. In the opinion of management, the ultimate resolution of pending legal proceedings will not have a material effect on the Hospital's financial position or results of operations.

Leases – The Hospital leases various equipment and facilities under operating leases expiring at various dates. Total rental expense, including operating leases, in 2020 and 2019 was $197,233 and $277,784, respectively.

Texas Medicaid 1115 Healthcare Transformation Waiver Recoupment Liability – During 2017, several hospitals filed a lawsuit against the federal government challenging the rule calculating disproportionate share (DSH) and uncompensated care (UC) payments. The hospitals claimed the rule's definition of "costs incurred" was contrary to the Medicaid Act. The main issue is whether payments made by Medicare and private insurers should be subtracted from a hospital's "costs incurred" in the calculation of the Medicaid Hospital Specific Limit (HSL). In August 2019, the D.C. Circuit reinstated the 2017 Final Rule as adopted by the Centers for Medicare and Medicaid Services. As a result, the HSL was subsequently recalculated, resulting in numerous hospitals receiving DSH and UC funds in excess of the calculated limit during demonstration years 7 and 8. Consequently, management has recorded an estimate for the anticipated recoupment of DSH and UC funds at June 30, 2020 and 2019 in the amount of $395,000 and $368,000, respectively. The recoupment liability is included within other accrued liabilities in the accompanying combined statements of net position.

NOTE 14 – EMPLOYEE HEALTH CLAIMS

The Hospital is partially self-insured for health claims of participating employees and dependents up to $50,000 per individual. Commercial stop-loss insurance coverage is purchased for claims in excess of the individual 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 Hospital's estimate will change by a material amount in the near term. Activity in the Hospital's accrued employee health claims liability during 2020 and 2019 is summarized as follows:

	2020	2019
Balance, Beginning of Year	$ 140,000	$ 70,000
Current Year Claims Incurred and Changes in Estimates for Claims Incurred in Prior years	1,548,575	1,024,681
Claims and Expenses Paid	(1,428,575)	(954,681)
Balance, End of Year	$ 260,000	$ 140,000

NOTE 15 – MEDICAL MALPRACTICE CLAIMS

The Hospital 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. These limits coincide with the malpractice insurance coverage maintained by the Hospital. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

NOTE 16 – MANAGEMENT SERVICES

During fiscal year 2002, the Hospital entered into an agreement with a company to provide management services for the Hospital, including the services of its Chief Executive Officer and Chief Financial Officer. These individuals are employees of the management company and if the contract were to be terminated, the Hospital would be unable to retain the services of the Chief Executive Officer and Chief Financial Officer. Amounts paid to the management company for all related management services for the years ended June 30, 2020 and 2019, were $885,235 and $940,732, respectively.

NOTE 17 – MEDICAID DISPROPORTIONATE SHARE FUNDS

The Indigent Health Care and Treatment Act, passed by the 69th Texas Legislature in 1985, first apportioned funds to the Texas Department of Human Services (DHS) to provide assistance to hospitals providing a disproportionate share (DSH) of inpatient indigent health care. The State of Texas created a mechanism whereby intergovernmental transfers were made between selected district hospitals to generate additional federal matching funds. Hospitals participating in the Medicaid program that meet the conditions of participation and that serve a disproportionate share of low-income patients as defined by state law are eligible for additional reimbursement from the disproportionate share hospital fund. There are direct and implied expectations regarding the purposes of this funding. The focus of the funds is to benefit the health care needs of the medically indigent, including recipient of Medicaid benefits, those eligible for Medicaid benefits, the uninsured poor, and others for whom the cost of medical and hospital care has exceeded their ability to pay. However, state and federal law offer considerable flexibility to recipient hospitals regarding specific use of the funds. During 2020 and 2019, the Hospital recognized $960,446 and $736,507, respectively, in disproportionate share revenue.

NOTE 18 – TAX ABATEMENT

The Hospital has entered into a property tax abatement agreement with a local business under the Texas Property Redevelopment and Tax Abatement Act, Tex. Tax Code Chapter 312, as amended. Under the Act, localities located in the Reinvestment Zone may be granted property tax abatements for the purpose of attracting or retaining business within the Hospital's jurisdiction.

For the fiscal year ending June 30, 2020 and 2019, the Hospital has reported the following tax abatement agreements noted below:

BYK USA: The agreement is effective as of January 1, 2019 and shall terminate on December 31, 2028. In order to receive an abatement, BYK must diligently and in good faith pursue a completion date of capital improvements on or before December 31, 2018, and must (1) prior to May 1 of each calendar year, certify in writing to the Hospital the construction cost of the Improvements; (2) Use the premises in the manner that is (i) consistent with the Hospital's resolution, and (ii) that, during the period taxes are abated are consistent with the general purpose of encouraging development or redevelopment of the reinvestment zone. The Hospital has approved additional expansions to the capital project noted as Phase two and three, which are estimated to begin in fiscal year 2019 and are included in the ten year abatement period.

NOTE 19 – COVID-19 FEDERAL FINANCIAL ASSISTANCE

The Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136) appropriated funds to reimburse eligible healthcare providers for healthcare related expenses or lost revenues attributable to coronavirus. These funds were distributed by the Health Resources and Services Administration (HRSA) through the Provider Relief Fund (PRF) program. Recipients of these funds agreed to Terms and Conditions, which require compliance with reporting requirements as specified by the Secretary of Health and Human Services in program instructions.

By accepting the Relief Funds, the Hospital must maintain compliance with the Secretary's terms and conditions, including but not limited to, using the Relief Funds to prevent, prepare for, and respond to coronavirus, and shall reimburse the Hospital only for health care related expenses or lost revenues that are attributable to coronavirus. The Hospital's commitment to full compliance with all terms and conditions is material to the Secretary's decision to disburse these funds. Non-compliance with any terms and conditions is grounds for the secretary to recoup some or all of the payment made from the Relief Fund. The Hospital received PRF funds in the amount of $6,374,205 and $-0- for the years ended June 30, 2020 and 2019, respectively.

NOTE 19 – COVID-19 FEDERAL FINANCIAL ASSISTANCE (CONTINUED)

In accordance with the Department of Health and Human Services Post-Payment Notice of Reporting Requirements released January 15, 2021, the recipients must submit their use of PRF payments by reporting healthcare related expenses attributable to coronavirus that another source has not reimbursed then applying actual patient care lost revenues to the remaining funds. If recipients do not expend PRF funds in full by the end of calendar year 2020, they will have an additional six months in which to use remaining amounts toward expenses attributable to coronavirus but not reimbursed by other sources, and/or lost revenues. For the year ended June 30, 2020, the Hospital incurred qualifying expenditures and recognized COVID-19 federal financial assistance revenue in the amount of $3,744,629. The respective revenue is included within nonoperating revenues (expenses) in the accompanying combined statements of revenues, expenses and changes in net position. At June 30, 2020, the Hospital had remaining PRF funds in the amount of $2,629,575, which are recorded in deferred inflows of resources on the combined statement of net position.

NOTE 20 – SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2020, the date of the most recent combined statement of net position, have been evaluated for possible adjustment to the combined financial statements or disclosure is April 6, 2021, which is the date on which the combined financial statements were available to be issued.