

**GONZALES HEALTHCARE SYSTEMS
GONZALES, TEXAS**

**AS OF AND FOR THE YEARS ENDED
JUNE 30, 2022 AND 2021**

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Management
Gonzales Healthcare Systems
Gonzales, Texas

Report on the Audit of the Combined Financial Statements

Opinion

We have audited the accompanying combined financial statements of Gonzales Healthcare Systems and Gonzales Healthcare Systems Foundation, a component unit of Gonzales Healthcare Systems (collectively referred to as the “Hospital”), as of and for the years ended June 30, 2022 and 2021, and the related notes to the combined financial statements, which collectively comprise the Hospital’s combined financial statements as presented on pages 1-5.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Gonzales Healthcare Systems and Gonzales Healthcare Systems Foundation, a component unit of Gonzales Healthcare Systems, as of June 30, 2022 and 2021, and the changes in its combined financial position and its combined cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor’s Responsibilities for the Audit of the Combined Financial Statements section of our report. We are required to be independent of the Hospital, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Combined Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Combined Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

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

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

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 is responsibility of management and, 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.

Required Supplementary Information (Continued)

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.

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the combined financial statements that collectively comprise the Hospital's basic combined financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the basic combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic combined financial statements or to the basic combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic combined financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2023 on our consideration of the Hospital's internal control over financial reporting and on our tests of compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control over financial reporting and compliance.

Durbin & Company, L.L.P.

Durbin & Company, L.L.P.
Lubbock, Texas
January 6, 2023

**GONZALES HEALTHCARE SYSTEMS
GONZALES, TEXAS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

**AS OF AND FOR THE YEARS ENDED
JUNE 30, 2022 AND 2021**

GONZALES HEALTHCARE SYSTEMS
UNAUDITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
AND COMBINED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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, 2022 and 2021. 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 15.3% or \$7,998,035 increase in 2022. Fiscal year 2021 increased 11.5% or \$5,390,829.
- The Hospital reported operating losses in 2022 and 2021 of \$6,871,906 and \$11,288,538 respectively. The operating loss in 2022 decreased by \$4,416,632 or 39.1%, over the operating loss reported in 2021. The operating loss in 2021 increased by \$2,988,249 or 36.2%, over the operating loss reported in 2020.
- Nonoperating revenues (expenses) decreased by \$1,218,795 or 7.6% in 2022, compared to 2021, and increased by \$2,234,216 or 16.2% in 2021, compared to 2020.

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, deferred outflows of resources, liabilities, and deferred inflows of resources—as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors 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 assess the overall health of the Hospital.

**GONZALES HEALTHCARE SYSTEMS
UNAUDITED MANAGEMENT’S DISCUSSION AND ANALYSIS
AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021**

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 deferred outflows of resources and its liabilities and deferred inflows of resources reported in the Combined Statement of Net Position on page 3. The Hospital’s combined net position increased by \$7,998,035 or 15.3% in 2022, and increased by \$5,390,829 or 11.5% in 2021, as you can see from **Table 1**.

Table 1:

| | 2022 | 2021 | 2020 |
|---|---------------------|---------------------|---------------------|
| Assets: | | | |
| Current Assets | \$44,446,736 | \$35,925,908 | \$35,796,828 |
| Capital Assets (net) | 19,247,010 | 20,644,471 | 21,162,937 |
| Other Non-Current Assets | 792,477 | 725,253 | 650,032 |
| Total Assets | <u>\$64,486,223</u> | <u>\$57,295,632</u> | <u>\$57,609,797</u> |
| Liabilities: | | | |
| Long-Term Debt Outstanding | \$ - | \$ - | \$ 2,761,800 |
| Other Current and Non-Current | 4,058,585 | 4,566,029 | 5,179,648 |
| Total Liabilities | <u>4,058,585</u> | <u>4,566,029</u> | <u>7,941,448</u> |
| Deferred Inflows of Resources: | | | |
| Provider Relief Funds | - | 300,000 | 2,629,575 |
| Net Position: | | | |
| Net Investment in Capital Assets | 19,247,010 | 20,644,471 | 18,401,137 |
| Restricted: | | | |
| Capital Acquisitions and Scholarships | 764,429 | 693,944 | 607,269 |
| Unrestricted | <u>40,416,199</u> | <u>31,091,188</u> | <u>28,030,368</u> |
| Total Net Position | <u>60,427,638</u> | <u>52,429,603</u> | <u>47,038,774</u> |
| Total Liabilities, Deferred Inflows of Resources and Net Position | <u>\$64,486,223</u> | <u>\$57,295,632</u> | <u>\$57,609,797</u> |

GONZALES HEALTHCARE SYSTEMS
UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS
AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021

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

The Hospital's combined net position increased by \$7,998,035 or 15.3% in 2022, and increased by \$5,390,829 or 11.5% in 2021. This change is made up of different components, as shown in **Table 2**.

| Table 2: | 2022 | 2021 | 2020 |
|---|----------------------------|----------------------------|----------------------------|
| Operating Revenues: | | | |
| Net Patient Service Revenue | \$31,677,030 | \$26,353,372 | \$26,334,055 |
| Nursing Home Revenue | 22,010,995 | 21,164,090 | 20,126,546 |
| Other Operating Revenue | 1,053,283 | 171,010 | 727,239 |
| Total Operating Revenue | <u>54,741,308</u> | <u>47,688,472</u> | <u>47,187,840</u> |
| Operating Expenses: | | | |
| Salaries, Wages and Benefits | 18,886,910 | 17,683,191 | 15,381,403 |
| Other Operating Expenses | 20,516,774 | 19,777,175 | 18,682,822 |
| Nursing Home | 19,958,484 | 19,126,771 | 18,915,400 |
| Depreciation / Amortization | 2,251,046 | 2,389,873 | 2,498,355 |
| Total Operating Expenses | <u>61,613,214</u> | <u>58,977,010</u> | <u>55,477,980</u> |
| Operating Loss | (6,871,906) | (11,288,538) | (8,290,140) |
| Nonoperating Revenues (Expenses): | | | |
| Property Tax Revenue | 11,332,176 | 10,016,311 | 9,368,818 |
| Noncapital Grants / Contributions | 43,270 | 53,237 | 16,435 |
| COVID-19 Federal Financial Assistance | 3,098,691 | 3,097,475 | 3,828,946 |
| Community Benefit Support | 424,505 | 720,269 | 763,619 |
| Intergovernmental Transfer | (415,283) | (419,136) | (522,942) |
| Investment Income | 87,948 | 96,849 | 161,307 |
| Interest Expense | (4,257) | (5,223) | (31,404) |
| Tobacco Settlement Revenue | 199,711 | 172,743 | 166,561 |
| Loss on Disposal of Assets | - | (43,769) | - |
| Gain on Loan Forgiveness | - | 2,296,800 | - |
| Total Nonoperating Revenues (Expenses) | <u>14,766,761</u> | <u>15,985,556</u> | <u>13,751,340</u> |
| Excess of Revenues over Expenses | | | |
| Before Capital Grants and Contributions | 7,894,855 | 4,697,018 | 5,461,200 |
| Capital Grants and Contributions | 103,180 | 693,811 | 265,977 |
| Increase in Net Position | <u>7,998,035</u> | <u>5,390,829</u> | <u>5,727,177</u> |
| Net Position, Beginning of Year | <u>52,429,603</u> | <u>47,038,774</u> | <u>41,311,597</u> |
| Net Position, End of Year | <u><u>\$60,427,638</u></u> | <u><u>\$52,429,603</u></u> | <u><u>\$47,038,774</u></u> |

**GONZALES HEALTHCARE SYSTEMS
UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS
AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021**

Operating Loss

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 decreased operating loss in 2022 are:

- An increase in other operating revenues of \$882,273 or 515.9%.
- An increase in net patient service revenue of \$5,323,658 or 20.2%.

The primary components of the increased operating loss in 2021 are:

- A decrease in other operating revenues of \$556,229 or 76.5%.
- An increase in salaries, wages, and benefit expense of \$2,301,788 or 15.0%.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of property taxes levied by the Hospital along with community benefit support, intergovernmental transfer expense, and COVID-19 federal financial assistance revenue. Property tax revenue for 2022 and 2021 was \$11,332,176 and \$10,016,311, respectively. The increase in property tax revenue is attributable to the increase in assessed property values. In 2022 and 2021, the Hospital recognized \$3,098,691 and \$3,097,475 in COVID-19 federal financial assistance revenue, respectively.

Grants, Contributions, and Endowments

The Hospital recognized \$103,180 and \$693,811 in capital grant revenue in 2022 and 2021, respectively. Noncapital grant revenue recognized in 2022 and 2021 was \$43,270 and \$53,237, respectively.

THE HOSPITAL'S COMBINED CASH FLOWS

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

**GONZALES HEALTHCARE SYSTEMS
UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS
AND COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2022 and 2021, the Hospital had \$19,247,010 and \$20,644,471, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 10 of the audited combined financial statements. The Hospital purchased \$853,585 and \$1,916,176 in capital assets in fiscal years 2022 and 2021, respectively.

Debt

As of June 30, 2022 and 2021, the Hospital had \$-0- in long-term debt outstanding as detailed in Note 11 of the audited combined financial statements. During 2020, the Hospital issued a Paycheck Protection Program ("PPP") loan in the amount of \$2,296,800. During 2021, the Hospital received full forgiveness of the PPP loan from the Small Business Administration. For the year ended June 30, 2021, the Hospital recognized a gain on loan forgiveness in the amount of \$2,296,800. During fiscal years 2022 and 2021, the Hospital made principal payments of \$-0- and \$465,000, respectively, on outstanding debt.

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, 2022 AND 2021**

GONZALES HEALTHCARE SYSTEMS

COMBINED STATEMENTS OF NET POSITION

AS OF JUNE 30, 2022 AND 2021

| ASSETS: | <u>2022</u> | <u>2021</u> |
|---|-----------------------------|-----------------------------|
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | \$ 25,952,694 | \$ 20,436,668 |
| Assets Whose Use is Limited - Internally Designated | 556,097 | 443,012 |
| Patient Accounts Receivable, Net of Allowance | 3,508,979 | 3,041,182 |
| Accounts Receivable - Nursing Home | 9,855,123 | 7,163,862 |
| Estimated Third-Party Payor Settlements | 292,115 | 637,903 |
| Other Receivables | 2,729,871 | 2,525,016 |
| Inventory of Supplies | 473,662 | 533,198 |
| Prepaid and Other Current Assets | 1,036,248 | 1,112,256 |
| Property Taxes Receivable | <u>41,947</u> | <u>32,811</u> |
| Total Current Assets | 44,446,736 | 35,925,908 |
| RESTRICTED ASSETS | 764,429 | 693,944 |
| CAPITAL ASSETS, | | |
| Net of Accumulated Depreciation | 19,247,010 | 20,644,471 |
| OTHER ASSETS | <u>28,048</u> | <u>31,309</u> |
| Total Assets | <u><u>\$ 64,486,223</u></u> | <u><u>\$ 57,295,632</u></u> |

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

GONZALES HEALTHCARE SYSTEMS
COMBINED STATEMENTS OF NET POSITION
AS OF JUNE 30, 2022 AND 2021

| LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION: | <u>2022</u> | <u>2021</u> |
|--|----------------------|----------------------|
| CURRENT LIABILITIES | | |
| Accounts Payable | \$ 666,653 | \$ 862,994 |
| Accounts Payable - Nursing Home | 1,005,236 | 997,051 |
| Accrued Payroll, Benefits, and Related Liabilities | 1,358,577 | 1,143,651 |
| Self Funded Health Insurance | 250,383 | 800,000 |
| Other Accrued Liabilities | <u>777,736</u> | <u>762,333</u> |
| Total Current Liabilities | 4,058,585 | 4,566,029 |
| DEFERRED INFLOWS OF RESOURCES | | |
| Provider Relief Funds | - | 300,000 |
| NET POSITION | | |
| Net Investment in Capital Assets | 19,247,010 | 20,644,471 |
| Restricted: | | |
| Capital Acquisitions and Scholarships | 764,429 | 693,944 |
| Unrestricted | <u>40,416,199</u> | <u>31,091,188</u> |
| Total Net Position | <u>60,427,638</u> | <u>52,429,603</u> |
| Total Liabilities, Deferred Inflows of Resources and Net Position | <u>\$ 64,486,223</u> | <u>\$ 57,295,632</u> |

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, 2022 AND 2021

| | 2022 | 2021 |
|---|---------------|---------------|
| OPERATING REVENUES: | | |
| Net Patient Service Revenue | \$ 31,677,030 | \$ 26,353,372 |
| Nursing Home Revenue | 22,010,995 | 21,164,090 |
| Other Revenue | 1,053,283 | 171,010 |
| Total Operating Revenues | 54,741,308 | 47,688,472 |
| OPERATING EXPENSES: | | |
| Salaries and Wages | 15,579,905 | 13,823,031 |
| Employee Benefits | 3,307,005 | 3,860,160 |
| Professional Fees and Purchased Services | 11,048,052 | 10,946,268 |
| Supplies and Other | 9,468,722 | 8,830,907 |
| Nursing Home | 19,958,484 | 19,126,771 |
| Depreciation and Amortization | 2,251,046 | 2,389,873 |
| Total Operating Expenses | 61,613,214 | 58,977,010 |
| Operating Loss | (6,871,906) | (11,288,538) |
| NONOPERATING REVENUES (EXPENSES): | | |
| Property Tax Revenue | 11,332,176 | 10,016,311 |
| Noncapital Grants and Contributions | 43,270 | 53,237 |
| COVID-19 Federal Financial Assistance | 3,098,691 | 3,097,475 |
| Community Benefit Support | 424,505 | 720,269 |
| Intergovernmental Transfer | (415,283) | (419,136) |
| Investment Income | 87,948 | 96,849 |
| Interest Expense | (4,257) | (5,223) |
| Tobacco Settlement Revenue | 199,711 | 172,743 |
| Loss on Disposal of Assets | - | (43,769) |
| Gain on Loan Forgiveness | - | 2,296,800 |
| Total Nonoperating Revenues (Expenses) | 14,766,761 | 15,985,556 |
| Excess of Revenues Over Expenses Before Capital Grants and Contributions | 7,894,855 | 4,697,018 |
| Capital Grants and Contributions | 103,180 | 693,811 |
| Increase in Net Position | 7,998,035 | 5,390,829 |
| Net Position, Beginning of Year | 52,429,603 | 47,038,774 |
| Net Position, End of Year | \$ 60,427,638 | \$ 52,429,603 |

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, 2022 AND 2021

| | 2022 | 2021 |
|---|---------------|---------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Receipts from and on Behalf of Patients | \$ 50,686,499 | \$ 44,035,722 |
| Payments to Suppliers and Contractors | (40,000,197) | (39,284,226) |
| Payments to Employees | (19,121,276) | (17,313,500) |
| Other Receipts and Payments, net | 962,571 | 92,665 |
| Net Cash Used by Operating Activities | (7,472,403) | (12,469,339) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Investment Earnings | 88,449 | 98,481 |
| Purchase of Investments | (3,921) | (6,768) |
| Net Cash Provided by Investing Activities | 84,528 | 91,713 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES | | |
| Capital Grants and Contributions | 103,180 | 693,811 |
| Property Taxes Restricted for Capital Activities | 414,302 | 477,701 |
| Principal Payments on Long-Term Debt | - | (465,000) |
| Interest Payments on Long-Term Debt | (4,257) | (15,154) |
| Proceeds From Sale of Capital Assets | - | 1,000 |
| Purchase of Capital Assets | (916,608) | (1,853,153) |
| Net Cash Used by Capital and Related Financing Activities | (403,383) | (1,160,795) |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES | | |
| Property Taxes | 10,908,738 | 9,542,188 |
| Noncapital Grants and Contributions | 43,270 | 53,237 |
| COVID-19 Federal Financial Assistance | 2,798,691 | 767,900 |
| Payments for Intergovernmental Transfers | (463,477) | (396,401) |
| Proceeds From Tobacco Settlement | 199,711 | 172,743 |
| Net Cash Provided by Noncapital Financing Activities | 13,486,933 | 10,139,667 |
| Net Increase (Decrease) in Cash and Cash Equivalents | 5,695,675 | (3,398,754) |
| Cash and Cash Equivalents, Beginning of Year | 21,154,232 | 24,552,986 |
| Cash and Cash Equivalents, End of Year | \$ 26,849,907 | \$ 21,154,232 |

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, 2022 AND 2021

| | 2022 | 2021 |
|--|--------------------|--------------------|
| 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 | \$ 25,952,694 | \$ 20,436,668 |
| Assets Whose Use is Limited - Current | 556,097 | 443,012 |
| Restricted Assets | 341,116 | 274,552 |
| | \$ 26,849,907 | \$ 21,154,232 |
| RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES: | | |
| Operating Loss | \$ (6,871,906) | \$(11,288,538) |
| Adjustments to Reconcile Operating Loss to Net Cash Flows Used by Operating Activities: | | |
| Depreciation and Amortization | 2,251,046 | 2,389,873 |
| Provision for Bad Debts | 3,781,288 | 2,713,024 |
| Community Benefit Support | 424,505 | 720,269 |
| (Increase) Decrease in: | | |
| Accounts Receivable | (4,249,085) | (3,358,454) |
| Accounts Receivable - Nursing Home | (2,691,261) | (2,006,151) |
| Prepaid Expenses and Other Current Assets | (21,618) | (683,224) |
| Estimated Third-Party Payor Settlements | 345,788 | (300,881) |
| Other Long-Term Assets | 3,261 | 11,454 |
| Increase (Decrease) in: | | |
| Accounts Payable | (133,318) | 260,701 |
| Accounts Payable - Nursing Home | 8,185 | (724,426) |
| Accrued Salaries and Benefits Payable | 214,926 | 65,939 |
| Other Accrued Liabilities | (534,214) | (268,925) |
| | \$ (7,472,403) | \$(12,469,339) |
| Net Cash Used By Operating Activities | \$ (7,472,403) | \$(12,469,339) |
| Supplemental disclosure of noncash investing and financing activities | | |
| Gain on Loan Forgiveness | \$ - | \$ 2,296,800 |
| Capital Asset Acquisitions Included in Accounts Payable | \$ - | \$ 63,023 |

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

GONZALES HEALTHCARE SYSTEMS
NOTES TO COMBINED FINANCIAL STATEMENTS
JUNE 30, 2022 AND 2021

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 Pronouncements:

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 June 15, 2021. Implementation of the Statement had no effect on the Hospital’s net position.

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 is (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. Implementation of the Statement had no effect on the Hospital’s net position.

GONZALES HEALTHCARE SYSTEMS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Newly Adopted Accounting Pronouncements (Continued):

GASB Statement No. 92 – In January 2020, the Governmental Accounting Standards Board (“GASB”) issued GASB Statement No. 92 – *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of GASB Statement No. 87, *Leases* to be effective for fiscal years beginning after December 15, 2019 and is effective for all reporting periods thereafter;
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB);
- The applicability of GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68, as amended, and No. 74, Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits;
- The applicability of certain requirements of GASB Statement No. 84, fiduciary activities, to postemployment benefit arrangements;
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in government acquisition;
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers;
- Reference to nonrecurring fair value measurements of assets and liabilities in authoritative literature;
- Terminology used to refer to derivative instruments.
- The requirements related to the effective date of Statement 87, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance;
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021;
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021;
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

Implementation of the Statement had no effect on the Hospital’s net position.

GONZALES HEALTHCARE SYSTEMS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Newly Adopted Accounting Pronouncements (Continued):

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 primary objective of this Statement is to provide temporary relief to governments and other stake holders in light of the COVID-19 pandemic. That objective is 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 the periods beginning after June 15, 2018, or later.

- The effective date for GASB Statement No. 87 has been postponed from reporting periods beginning after December 15, 2019 to reporting periods beginning after June 15, 2021.
- The effective date for GASB Statement No. 89 has been postponed from reporting periods beginning after December 15, 2019 to reporting periods beginning after December 15, 2020.
- The effective date for GASB Statement No. 91 has been postponed from reporting periods beginning after December 15, 2020 to reporting periods beginning after December 15, 2021.
- The effective date for GASB Statement No. 92 has been postponed from reporting periods beginning after June 15, 2020 to reporting periods beginning after June 15, 2021.

Implementation of the Statement had no effect on the Hospital’s net position.

Pending Adoption of Recent Accounting Pronouncements

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.

- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition;
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers;
- Reference to nonrecurring fair value measurements of assets or liabilities in authoritative literature;
- Terminology used to refer to derivative instruments.

The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement No. 87, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance;
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020;

GONZALES HEALTHCARE SYSTEMS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pending Adoption of Recent Accounting Pronouncements (Continued):

GASB Statement No. 91 (Continued) –

- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020;
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020.

Management is currently evaluating the effect this statement will have on the combined financial statements and related disclosures.

GASB Statement No. 96 – In May 2020, the Governmental Accounting Standards Board (“GASB”) issued GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA; and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, *Leases*, as amended. The Statement is effective for reporting periods beginning after June 15, 2022, with earlier application encouraged. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

GASB Statement No. 99 – In April 2022, the Governmental Accounting Standards Board (“GASB”) issued GASB Statement No. 99 – Omnibus 2022. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing (1) practice issues that have been identified during implementation and application of certain GASB Statements and (2) accounting and financial reporting for financial guarantees. The practice issues addressed by this Statement are as follows:

- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.

GONZALES HEALTHCARE SYSTEMS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pending Adoption of Recent Accounting Pronouncements (Continued):

GASB Statement No. 99 (Continued) –

- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of*
- *Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. Terminology used in Statement 53 to refer to resource flows statements.

This statement is effective upon issuance for requirements related to disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions of Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance. The requirements related to leases and SBITAs are effective for fiscal years beginning after June 15, 2022. Management is currently evaluating the effect this statement will have on the combined financial statements and related disclosures.

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, 2022 and 2021, 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, 2022 and 2021.

GONZALES HEALTHCARE SYSTEMS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

The following are a range of useful lives used by asset class:

| | |
|----------------------------|---------------|
| Land Improvements | 5 to 20 years |
| Buildings and Improvements | 3 to 40 years |
| Equipment | 3 to 25 years |
| Computer Software | 3 to 5 years |

Deferred Outflows/Inflows of Resources – Transactions not meeting the definition of an asset or liability that result in the consumption or acquisition of net position in one period that are applicable to future periods are reported as deferred outflows of resources and deferred inflows of resources, respectively.

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.

GONZALES HEALTHCARE SYSTEMS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2021 combined financial statements have been reclassified to conform to the 2022 combined financial statement presentation. These reclassifications had no effect on the change in net position.

GONZALES HEALTHCARE SYSTEMS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021

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 \$2,875,090 in 2022 and \$3,696,763 in 2021. 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 \$1,755,000 and \$2,382,000 for the years ended June 30, 2022 and 2021, respectively.

Net patient service revenue is comprised as follows:

| | <u>2022</u> | <u>2021</u> |
|---|----------------------------|----------------------------|
| Routine Patient Services | \$ 1,475,944 | \$ 896,841 |
| Ancillary Patient Services | | |
| Inpatient | 7,227,700 | 6,677,529 |
| Outpatient | <u>52,873,979</u> | <u>43,622,298</u> |
| Gross Patient Service Revenue | 61,577,623 | 51,196,668 |
| Charity | (2,875,090) | (3,696,763) |
| Third-Party Contractual Adjustments | (26,938,224) | (19,902,589) |
| Provision for Bad Debts | (3,781,288) | (2,713,024) |
| Medicaid Disproportionate Share and Other Credits | <u>3,694,009</u> | <u>1,469,080</u> |
| Net Patient Service Revenue | <u><u>\$31,677,030</u></u> | <u><u>\$26,353,372</u></u> |

GONZALES HEALTHCARE SYSTEMS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021

NOTE 2 – NET PATIENT REVENUE (CONTINUED)

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, 2022 and 2021 are \$292,115 and \$637,903, 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 \$533,135 and \$165,517, and received \$1,692,119 and \$504,103 for the years ended June 30, 2022 and 2021, respectively. The Hospital recognized net revenue of \$1,018,514 and \$338,586 for the years ended June 30, 2022 and 2021, respectively. The respective net revenue is included within net patient service revenue in the combined statements of revenues, expenses, and changes in net position.

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 \$424,505 and \$720,269 for the years ended June 30, 2022 and 2021, respectively. As part of the affiliation agreement, the Hospital provided \$463,477 and \$396,401 in funding to the program for the years ended June 30, 2022 and 2021, respectively. Additionally, the Hospital recorded prepaid IGT as of June 30, 2022 and 2021 in the amount of \$48,194 and \$-0-, 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 \$13,026 and \$138,174 for the years ended June 30, 2022 and 2021, respectively. Additionally, the Hospital recorded prepaid UHRIP IGT as of June 30, 2022 and 2021 in the amount of \$-0- and \$62,470, respectively.

GONZALES HEALTHCARE SYSTEMS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021

NOTE 3 – SECTION 1115 DEMONSTRATION WAIVER PROGRAM (CONTINUED)

Comprehensive Hospital Increase Reimbursement Program (CHIRP) – The Hospital participated in the Comprehensive Hospital Increase Reimbursement Program (CHIRP), one of four directed payment programs (DPP) the Texas Health and Human Services (HHSC) submitted to the Centers for Medicare and Medicaid Services (CMS) for approval as part of the Delivery System Reform Incentive Payment (DSRIP) Transition Plan. CHIRP replaces the Uniform Hospital Rate Increase (UHRIP) program. In year 1, the program will include two components:

- Component 1, UHRIP component, which provides a uniform rate enhancement on all hospital inpatient and outpatient service claims.
- Component 2, Average Commercial Incentive Award (ACIA) Component, is a uniform percent rate increase for certain services based upon a percentage of the estimated average commercial reimbursement. Participating hospitals may opt into this component.

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 \$76,050 and \$-0- for the years ended June 30, 2022 and 2021, respectively. Additionally, the Hospital recorded prepaid CHIRP IGT as of June 30, 2022 and 2021 in the amount of \$25,350 and \$-0-, respectively.

Rural Access to Primary and Preventive Services (RAPPS) – The Hospital participated in the Rural Access to Primary and Preventive Services (RAPPS) Program, one of four directed payment programs (DPP) the Texas Health and Human Services (HHSC) submitted to the Centers for Medicare and Medicaid Services (CMS) for approval as part of the Delivery System Reform Incentive Payment (DSRIP) Transition Plan. In year 1, the program will include two components:

- Component 1 provides a uniform dollar increase in the form of prospective, monthly payments to all participating RHCs to enhance structures that promote better access to primary and preventative services. The amount would vary by RHC class, and the structure measures would include reporting on electronic health record use, telemedicine / telehealth capabilities, and ensuring access to primary and preventative services.
- Component 2 will be a uniform percent rate increase for certain services based on achievement of quality metrics focused on preventative care and screening and management of chronic conditions.

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 \$-0- and \$73,765 for the years ended June 30, 2022 and 2021, respectively.

GONZALES HEALTHCARE SYSTEMS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021

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.

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, 2022 and 2021, the Hospital recorded total fees and expenses of \$7,683,980 and \$7,511,289, respectively. These expenses are included in Nursing Home expenses on the combined statements of revenues, expenses, and changes in net position. Of this amount, \$1,005,236 and \$997,051 is recorded as a liability in Nursing Home Payable on the combined statements of net position as of June 30, 2022 and 2021, respectively.

GONZALES HEALTHCARE SYSTEMS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021

NOTE 4 – NURSING HOME OPERATIONS (CONTINUED)

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 \$26,871 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 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, 2022 and 2021, the Hospital recorded total fees and expenses of \$4,546,423 and \$4,595,952, 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 \$35,525 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.

GONZALES HEALTHCARE SYSTEMS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021

NOTE 4 – NURSING HOME OPERATIONS (CONTINUED)

Magnolia Living & Rehabilitation (Continued)– 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, 2022 and 2021, the Hospital recorded total fees and expenses of \$7,728,081 and \$7,019,530, respectively. The expenses are included in Nursing Home expenses on the combined statements of revenues, expenses, and changes in net position.

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 \$2,028,600 and \$2,647,700 for the years ended June 30, 2022 and 2021, respectively. Of this amount, approximately \$1,354,200 and \$1,347,400 is recorded in other receivables on the combined statements of net position as of June 30, 2022 and 2021, respectively. The hospital recognized net revenue of approximately \$3,102,900 and \$1,841,000 for the years ended June 30, 2022 and 2021, respectively.

NOTE 5 – DEPOSITS WITH FINANCIAL INSTITUTIONS

As of June 30, 2022 and 2021, the carrying amount of the Hospital’s deposits with financial institutions was \$27,270,725 and \$21,571,129, respectively, and the bank balance was \$27,843,927 and \$22,487,093 respectively. The bank balance is categorized as follows:

| | <u>2022</u> | <u>2021</u> |
|---|----------------------------|----------------------------|
| Amount Insured by the FDIC | \$ 987,750 | \$ 945,997 |
| Amount Collateralized with Securities Held by the Pledging Financial Institution's Trust Department in the Hospital's Name | <u>26,856,177</u> | <u>21,541,096</u> |
| Total Bank Balance | <u><u>\$27,843,927</u></u> | <u><u>\$22,487,093</u></u> |

GONZALES HEALTHCARE SYSTEMS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021

NOTE 6 – PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable consist of the following at June 30:

| | <u>2022</u> | <u>2021</u> |
|---------------------------------------|---------------------|---------------------|
| Gross Accounts Receivable | \$ 8,139,405 | \$ 6,538,870 |
| Less: Allowance for Bad Debts | (2,050,077) | (1,519,290) |
| Allowance for Contractuals | <u>(2,580,349)</u> | <u>(1,978,398)</u> |
| Accounts Receivable, Net of Allowance | <u>\$ 3,508,979</u> | <u>\$ 3,041,182</u> |

Concentration of Credit Risk – The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at June 30, 2022 and 2021 is as follows:

| | <u>2022</u> | <u>2021</u> |
|--------------------------|-----------------|-----------------|
| Medicare | 30% | 32% |
| Medicaid | 10% | 7% |
| Other Third-Party Payors | 27% | 28% |
| Patients | <u>33%</u> | <u>33%</u> |
| Total | <u>100%</u> | <u>100%</u> |

GONZALES HEALTHCARE SYSTEMS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021

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, 2022 and 2021 is set forth in the following table:

| | <u>2022</u> | <u>2021</u> |
|--|-------------------|-------------------|
| Internally Designated for Capital Acquisitions: | | |
| Cash and Cash Equivalents | \$ 442,600 | \$ 401,259 |
| Internally Designated for Nursing Home Operations: | | |
| Cash and Cash Equivalents | 98,482 | 26,746 |
| Internally Designated for Debt Service: | | |
| Cash and Cash Equivalents | 15,015 | 15,007 |
| Total Assets Whose Use is Limited | <u>556,097</u> | <u>443,012</u> |
| Restricted for Capital Acquisitions and Scholarships: | | |
| Cash and Cash Equivalents | 341,116 | 274,552 |
| Certificates of Deposit - Long-Term | 423,313 | 419,392 |
| Total Restricted for Capital Acquisitions and Scholarships | <u>764,429</u> | <u>693,944</u> |
| Total Assets Whose Use is Limited and Restricted Assets | 1,320,526 | 1,136,956 |
| Less: Current Portion | <u>(556,097)</u> | <u>(443,012)</u> |
| Noncurrent Portion | <u>\$ 764,429</u> | <u>\$ 693,944</u> |

NOTE 8 – RESTRICTED NET POSITION

As of June 30, 2022 and 2021, restricted expendable net position was available for the following purposes:

| | <u>2022</u> | <u>2021</u> |
|---|-------------------|-------------------|
| Restricted for Capital Acquisitions and Scholarships: | | |
| Cash and Cash Equivalents | \$ 341,116 | \$ 274,552 |
| Certificates of Deposit | 423,313 | 419,392 |
| Total Restricted Expendable Net Position | <u>\$ 764,429</u> | <u>\$ 693,944</u> |

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 2022 and 2021 was \$11,332,176 and \$10,016,311, respectively. As of June 30, 2022 and 2021, the balance of property taxes receivable and its related allowance for uncollectible taxes are as follows:

| | <u>2022</u> | <u>2021</u> |
|---|------------------|------------------|
| Property Taxes Receivable | \$ 986,705 | \$ 938,036 |
| Less: Allowance for Uncollectible Taxes | <u>(944,758)</u> | <u>(905,225)</u> |
| Taxes Receivable, Net of Allowance | <u>\$ 41,947</u> | <u>\$ 32,811</u> |

GONZALES HEALTHCARE SYSTEMS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021

NOTE 10 – CAPITAL ASSETS

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

| | Balance 06/30/21 | Additions | Reclass/ Retirements | Balance 06/30/22 |
|--------------------------------|----------------------|-----------------------|-------------------------|----------------------|
| Land | \$ 440,182 | \$ - | \$ - | \$ 440,182 |
| Land Improvements | 264,965 | - | - | 264,965 |
| Building and Improvements | 28,168,729 | 19,335 | - | 28,188,064 |
| Equipment | 24,210,685 | 696,921 | - | 24,907,606 |
| Construction in Progress | 474,605 | 137,329 | - | 611,934 |
| Totals at Historical Cost | <u>53,559,166</u> | <u>853,585</u> | - | <u>54,412,751</u> |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | (272,012) | (241) | - | (272,253) |
| Building and Improvements | (11,607,448) | (1,241,335) | - | (12,848,783) |
| Equipment | <u>(21,035,235)</u> | <u>(1,009,470)</u> | - | <u>(22,044,705)</u> |
| Total Accumulated Depreciation | <u>(32,914,695)</u> | <u>(2,251,046)</u> | - | <u>(35,165,741)</u> |
| Capital Assets, Net | <u>\$ 20,644,471</u> | <u>\$ (1,397,461)</u> | <u>\$ -</u> | <u>\$ 19,247,010</u> |

Construction in progress as of June 30, 2022, consists of a nurse call system, and a down payment on an endoscope. The nurse call system has an estimated cost of \$525,000 and is expected to be placed in service in August 2022. The endoscope has an estimated cost of \$29,475 and is expected to be placed in service in August 2022.

GONZALES HEALTHCARE SYSTEMS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021

NOTE 10 – CAPITAL ASSETS (CONTINUED)

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

| | Balance 06/30/20 | Additions | Reclass/ Retirements | Balance 06/30/21 |
|--------------------------------|----------------------|---------------------|-------------------------|----------------------|
| Land | \$ 440,182 | \$ - | \$ - | \$ 440,182 |
| Land Improvements | 264,965 | - | - | 264,965 |
| Building and Improvements | 27,570,944 | 597,785 | - | 28,168,729 |
| Equipment | 23,421,419 | 843,786 | (54,520) | 24,210,685 |
| Construction in Progress | 10,996 | 474,605 | (10,996) | 474,605 |
| Totals at Historical Cost | <u>51,708,506</u> | <u>1,916,176</u> | <u>(65,516)</u> | <u>53,559,166</u> |
| Less Accumulated Depreciation: | | | | |
| Land Improvements | (267,606) | (4,406) | - | (272,012) |
| Building and Improvements | (10,356,287) | (1,251,161) | - | (11,607,448) |
| Equipment | (19,921,676) | (1,134,306) | 20,747 | (21,035,235) |
| Total Accumulated Depreciation | <u>(30,545,569)</u> | <u>(2,389,873)</u> | <u>20,747</u> | <u>(32,914,695)</u> |
| Capital Assets, Net | <u>\$ 21,162,937</u> | <u>\$ (473,697)</u> | <u>\$ (44,769)</u> | <u>\$ 20,644,471</u> |

Construction in progress as of June 30, 2021, consists of a payroll and nurse call system. The payroll system was completed and placed in service in December 2021. The nurse call system has an estimated cost of \$525,000 and is expected to be placed in service in August 2022.

NOTE 11 – LONG-TERM DEBT

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

| | Balance 06/30/20 | Additions | Reductions | Balance 06/30/21 | Due Within One Year |
|-----------------------|---------------------|-------------|----------------------|---------------------|------------------------|
| Bonds Payable: | | | | | |
| PPP Loan | \$2,296,800 | \$ - | \$(2,296,800) | \$ - | \$ - |
| Series 2000 Bonds | 465,000 | - | (465,000) | - | - |
| Total Long-Term Debt: | <u>\$2,761,800</u> | <u>\$ -</u> | <u>\$(2,761,800)</u> | <u>\$ -</u> | <u>\$ -</u> |

GONZALES HEALTHCARE SYSTEMS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021

NOTE 11 – LONG-TERM DEBT (CONTINUED)

The terms and due dates of the Hospital's long-term debt at June 30, 2022 and 2021 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%. In May 2021, the Hospital received notice of full forgiveness from the Small Business Administration. For the year ended June 30, 2021, the Hospital recognized a gain on loan forgiveness in the amount of \$2,296,800.
- **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. The Bonds were paid in full in August 2020.

The amount of interest cost incurred for the years ended June 30, 2022 and 2021 was \$4,257 and \$5,223, 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, 2022 and 2021, the Hospital made contributions of \$227,993 and \$233,170, respectively, and employee contributions were \$389,967 and \$412,329, 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.

GONZALES HEALTHCARE SYSTEMS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021

NOTE 13 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

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, 2022 and 2021 in the amount of \$535,470 and \$395,000, 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 2022 and 2021 is summarized as follows:

| | <u>2022</u> | <u>2021</u> |
|---|--------------------|--------------------|
| Balance, Beginning of Year | \$ 800,000 | \$ 260,000 |
| Current Year Claims Incurred and Changes in Estimates | | |
| for Claims Incurred in Prior years | 1,663,135 | 2,290,936 |
| Claims and Expenses Paid | <u>(2,212,752)</u> | <u>(1,750,936)</u> |
| Balance, End of Year | <u>\$ 250,383</u> | <u>\$ 800,000</u> |

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.

GONZALES HEALTHCARE SYSTEMS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021

NOTE 16 – MANAGEMENT SERVICES

On September 4, 2013, the Hospital entered into an agreement with a management company to provide hospital administrative and consulting services for the Hospital, including the staffing of its Chief Executive Officer and Chief Financial Officer. The term of the agreement is seven years, with an expiration date of September 3, 2020. On December 10, 2019, the agreement was amended to extend the expiration date to June 30, 2025. Amounts paid to the management company for all related hospital administrative and consulting services for the years ended June 30, 2022 and 2021, were \$975,238 and \$918,837, 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 2022 and 2021, the Hospital recognized \$1,246,046 and \$285,723, 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, 2022 and 2021, the Hospital has reported the following tax abatement agreements noted below:

BYK USA: The agreement is effective as of January 1, 2020 and shall terminate on December 31, 2029. 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, 2019, 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 on January 1, 2019, and are included in the ten-year abatement period.

GONZALES HEALTHCARE SYSTEMS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021

NOTE 19 – COVID-19 FEDERAL FINANCIAL ASSISTANCE

The Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136) and the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act (P.L. 116-123) 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. The Hospital received relief funds through Targeted Distribution stimulus payments, Rural Health Clinic Testing payments, and Allocation for Nursing Home Infection Control payments. 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.

- **Targeted Distribution** – 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 Targeted Distribution Funds in the amount of \$2,420,060 and \$-0- for the years ended June 30, 2022 and 2021, respectively.
- **Rural Health Clinic Testing** – The Department of Health and Human Services distributed funds received from the Public Health and Social Services Emergency Fund, as appropriated in P.L. 116-139 (“Rural Testing Relief Fund”). In connection with this program, the Hospital received \$-0- and \$300,000 , respectively in Rural Testing Relief Funds for the years ended June 30, 2022 and 2021. The Hospital is to use the funding reimburse for COVID-19 testing requirements, including purchasing supplies (such as test kits and other testing supplies).
- **Nursing Home Infection Control**– The Department of Health and Human Services distributed funds received from the Public Health and Social Services Emergency Fund, as appropriated in P.L. 116-136 and P.L. 116-139 (“Relief Funds”). Each facility will receive a fixed distribution of \$10,000, plus a distribution of \$1,400 per bed to all certified facilities with six or more certified beds. The Nursing Home is to use the funding to reimburse for COVID-19 testing and reporting, hiring staff to provide patient care or administrative support, expenses incurred to improve infection control, and providing additional services to residents. For the years ended June 30, 2022 and 2021, the Hospital received Nursing Home Infection Control funds in the amount of \$-0- and \$467,000 respectively.

GONZALES HEALTHCARE SYSTEMS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021

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 June 11, 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. The period of availability of funds is based on the date the payment is received as follows:

| <u>Payment Received Period</u> | <u>Period of Availability</u> |
|--|---|
| April 10, 2020 through June 30, 2020 | January 1, 2020 through June 30, 2021 |
| July 1, 2020 through December 31, 2020 | January 1, 2020 through December 31, 2021 |
| January 1, 2021 through June 30, 2021 | January 1, 2020 through June 30, 2022 |
| July 1, 2021 through December 31, 2021 | January 1, 2020 through December 31, 2022 |
| January 1, 2022 through June 30, 2022 | January 1, 2020 through June 30, 2023 |

If recipients do not expend PRF funds in full by these deadlines toward expenses attributable to coronavirus but not reimbursed by other sources, and/or lost revenues, the funds may become subject to recoupment.

Rural Health Clinic COVID-19 Testing and Mitigation Program – In March 2021, the United States Congress passed the American Rescue Plan (“ARP”) Act (P.L. 117-2). The ARP Act appropriated additional funds to address the continued impact of COVID-19 on the economy, public health, state and local governments, individuals, and businesses. These funds were distributed by the Health Resources and Services Administration (“HRSA”) through the Rural Health Clinic COVID-19 Testing and Mitigation (“RHCCTM”) program. The RHCCTM program provides assistance for maintaining and increasing the range of mitigation activities in local communities and grant revenue is recognized as qualifying expenditures are incurred over the grant period. The Hospital was awarded RHCCTM program funds in the amount of \$255,561 and \$-0- for the years ended June 30, 2022 and 2021, and recognized \$128,631 and \$-0-, respectively, in RHCCTM program revenue.

Coronavirus State and Local Fiscal Recovery Funds (SLFRF) – The Texas Department of Health and Human Services Commission (“HHSC”) received funding from the United States Department of Treasury to distribute to facilities in the state of Texas for the purpose of supporting their response to and recovery from the COVID-19 public health emergency. Eligible facilities received \$250,000 from HHSC. For the years ended June 30, 2022 and 2021, the Hospital received \$250,000 and \$-0-, respectively, in SLFRF funds.

For the years ended June 30, 2022 and 2021, the Hospital incurred allowable expenditures and recognized COVID-19 federal financial assistance revenue in the amount of \$3,098,691 and \$3,097,475, respectively. The respective revenue is included in nonoperating revenues (expenses) in the accompanying combined statements of revenues, expenses, and changes in net position. As of June 30, 2022 and 2021, the Hospital had remaining COVID-19 federal financial assistance funds in the amount of \$-0- and \$300,000, respectively, which are included within deferred inflows of resources in the accompanying combined statements of net position.

GONZALES HEALTHCARE SYSTEMS
NOTES TO COMBINED FINANCIAL STATEMENTS (CONTINUED)
JUNE 30, 2022 AND 2021

NOTE 20 – SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2022, 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 January 6, 2023, which is the date on which the combined financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

**GONZALES HEALTHCARE SYSTEMS
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022**

| <i>Federal Grantor/Pass-Through Grantor/ Program or Cluster Title</i> | <i>Federal CFDA Number</i> | <i>Pass-Through Entity Identifying Number</i> | <i>Total Federal Expenditures</i> |
|---|------------------------------------|---|---|
| <u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u> | | | |
| <i>Direct Programs:</i> | | | |
| HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund | 93.461 | N/A | \$ 433,525 * |
| COVID-19 Provider Relief Fund (PRF) and American Rescue Plan (ARP) Rural Distribution - Period 2 and 3 | 93.498 | N/A | 1,025,693 |
| COVID-19 Testing and Mitigation for Rural Health Clinics | 93.697 | N/A | <u>300,000</u> |
| Total Direct Programs | | | <u>1,759,218</u> |
| <i>Passed Through the Texas Department of Agriculture:</i> | | | |
| Small Rural Hospital Improvement Grant Program | 93.301 | 2021SHP035 | 7,599 |
| COVID-19 Small Rural Hospital Improvement Grant Program | 93.301 | 2021CTM037 | <u>128,631</u> |
| Total Passed Through the Texas Department of Agriculture | | | <u>136,230</u> |
| <i>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</i> | | | <u>1,895,448</u> |
| TOTAL EXPENDITURES OF FEDERAL AWARDS | | | <u><u>\$ 1,895,448</u></u> |

* Amounts are reported in net patient service revenue on the accompanying combined statements of revenues, expenses, and changes in net position.

The accompanying notes are an integral part of this schedule.

See Independent Auditor's Report.

GONZALES HEALTHCARE SYSTEMS
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2022

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “Schedule”) includes the federal award activity of Gonzales Healthcare Systems (the “Hospital”), under programs of the federal government for the year ended June 30, 2022. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the combined financial position, revenues, expenses, and changes in net position, or cash flows of the Hospital.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – INDIRECT COST RATE

The Hospital has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4 - SUBRECIPIENTS

The Hospital did not provide any federal awards to subrecipients during the year ended June 30, 2022.

NOTE 5 – PROVIDER RELIEF FUNDS (93.498)

Expenditures under Catalog of Federal Domestic Assistance #94.498, Provider Relief Fund (“PRF”) applies the guidance of the U.S. Department of Health and Human Services (“HHS”). For the PRF award program, the amount reported in the accompanying schedule is reported based on the PRF portal submission guidelines. Payments from HHS for the PRF award program are assigned to one of seven payment received periods based upon the date each payment from the PRF award program was received. Each period has a specified period of availability and timing of reporting requirements. The accompanying schedule includes those qualifying expenditures and/or lost revenues that were reported in the PRF award program portal for periods 2 and 3 (payment received periods from July 1, 2020 to December 31, 2020 and January 1, 2021 to June 30, 2021, respectively; and periods of availability from January 1, 2020 to December 31, 2021 and January 1, 2020 to June 30, 2022, respectively). As such, the amount reported in the accompanying schedule will differ from amounts reported in the accompanying statements of revenues, expenses, and changes in net position.

NOTE 6 – PERSONAL PROTECTIVE EQUIPMENT (PPE) (UNAUDITED)

For the year ended June 30, 2022, the Hospital received \$-0- in federally donated personal protective equipment in response to the COVID-19 pandemic (unaudited).



**INDEPENDENT AUDITOR’S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the Board of Directors and Management
Gonzales Healthcare Systems
Gonzales, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined financial statements of Gonzales Healthcare Systems and Gonzales Healthcare Systems Foundation, a component unit of Gonzales Healthcare Systems (collectively referred to as the “Hospital”), as of and for the year ended June 30, 2022, and the related notes to the combined financial statements, which collectively comprise the Hospital’s basic combined financial statements and have issued our report thereon dated January 6, 2023.

Report on Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the Hospitals’ internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Hospitals’ internal control. Accordingly, we do not express an opinion on the effectiveness of the Hospitals’ internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Hospitals’ combined financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. During our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses.

Durbin & Company, L.L.P.
Certified Public Accountants

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospitals' combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the combined financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Hospital's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Hospital's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Durbin & Company, L.L.P.

Durbin & Company, L.L.P.
Lubbock, Texas
January 6, 2023



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE UNIFORM GUIDANCE**

Management and the Board of Directors
Gonzales Healthcare Systems
Gonzales, Texas

Report on Compliance for Each Major Federal Program

Opinion on Each Major Federal Program

We have audited Gonzales Healthcare Systems' (the "Hospital") compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the Hospital's major federal programs for the year ended June 30, 2022. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

In our opinion, the Hospital complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2022.

Basis for Opinion on Each Major Program

We conducted our audit of compliance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Our responsibilities under those standards and the Uniform Guidance are further described in the Auditor's Responsibilities for the Audit of Compliance section of our report.

We are required to be independent of the Hospital and to meet our other ethical responsibilities, in accordance with relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a legal determination of the Hospital's compliance requirements referred to above.

Responsibilities of Management for Compliance

Management is responsible for compliance with the requirements referred to above and for the design, implementation, and maintenance of effective internal control over compliance with the requirements of laws, statutes, regulations, rules and provisions of contracts or grant agreements applicable to the Hospital's federal programs.

Auditor's Responsibilities for the Audit of Compliance

Our objectives are to obtain reasonable assurance about whether material noncompliance with the compliance requirements referred to above occurred, whether due to fraud or error, and express an opinion on the Hospital's compliance based on our audit. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance will always detect material noncompliance when it exists. The risk of not detecting material noncompliance resulting from fraud is higher than for that resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Noncompliance with the compliance requirements referred to above is considered material if there is a substantial likelihood that, individually or in the aggregate, it would influence the judgment made by a reasonable user of the report on compliance about the Hospital's compliance with the requirements of each major federal program as a whole.

In performing an audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, we:

- Exercise professional judgement and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material noncompliance, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the Hospital's compliance with the compliance requirements referred to above and performing such other procedures as we consider necessary in the circumstances.
- Obtain an understanding of the Hospital's internal control over compliance relevant to the audit in order to design audit procedures that are appropriate in the circumstances and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over compliance. Accordingly, no such opinion is expressed.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and any significant deficiencies and material weaknesses in internal control over compliance that we identified during the audit.

Report on Internal Control over Compliance

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defines above. However, material weaknesses or significant deficiencies may exist that have not been identified.

Our audit was not designed for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, no such opinion was expressed.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Durbin & Company, L.L.P.

Durbin & Company, L.L.P.
Lubbock, Texas
January 6, 2023

**GONZALES HEALTHCARE SYSTEMS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2022**

SUMMARY OF AUDITOR'S RESULTS:

1. The auditor’s report expresses an unmodified opinion on whether the combined financial statements of Gonzales Healthcare Systems were prepared in accordance with GAAP.
2. No material weaknesses relating to the audit of the financial statements is reported in the Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards* .
3. No instances of noncompliance material to the combined financial statements of Gonzales Healthcare Systems, which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award program are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor’s report on compliance for the major federal award program for Gonzales Healthcare Systems expresses an unmodified opinion on all major federal programs.
6. There are no audit findings related to major programs that are required to be reported in accordance with 2 CFR §200.516(a).
7. The programs tested as major programs were:

| Program | CFDA Number |
|---|--------------------|
| COVID-19 - Provider Relief Fund (PRF) and American Rescue Plan (ARP) Rural Distribution | 93.498 |

8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. Gonzales Healthcare Systems was determined not to be a low-risk auditee.

**GONZALES HEALTHCARE SYSTEMS
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2022**

FINDINGS – FINANCIAL STATEMENT AUDIT

- No matters reportable

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS AUDIT

- No matters reportable