GONZALES HEALTHCARE SYSTEMS
GONZALES, TEXAS

AS OF AND FOR THE YEARS ENDED
JUNE 30, 2025 AND 2024

D&Co. LLP
CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Management
Gonzales Healthcare Systems
Gonzales, Texas

Opinion

We have audited the accompanying financial statements of Gonzales Healthcare Systems (the "Hospital"), as of and for the years ended June 30, 2025 and 2024, and the related notes to the financial statements, which collectively comprise the Hospital's financial statements as presented on pages 1-5.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Hospital, as of June 30, 2025 and 2024, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the 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 Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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 Financial Statements

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

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts or disclosures in the financial statements.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the 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 financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

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 financial statements, and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

D & Co., L.L.P.
Lubbock, Texas
November 26, 2025

GONZALES HEALTHCARE SYSTEMS
GONZALES, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEARS ENDED
JUNE 30, 2025 AND 2024

GONZALES HEALTHCARE SYSTEMS

UNAUDITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
AND FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

Our discussion and analysis of Gonzales Healthcare Systems' (the "Hospital"), financial performance provides an overview of the Hospital's financial activities for the fiscal years ended June 30, 2025 and 2024. Please read it in conjunction with the Hospital's financial statements, which begin on page 1.

FINANCIAL HIGHLIGHTS

- The Hospital's net position reflects a $6,717,735 or 9.1% increase in 2025, and a $6,290,041 or 9.3% increase in 2024.

- The Hospital reported operating losses in 2025 and 2024 of $11,418,746 and $10,725,584, respectively. The operating loss in 2025 increased by $693,162 or 6.5%, over the operating loss reported in 2024. The operating loss in 2024 increased by $2,624,745 or 32.4%, over the operating loss reported in 2023.

- Net Patient Service Revenue increased by $689,549 or 2.2%, and decreased by $1,438,995 or 4.4% in 2025 and 2024, respectively.

USING THIS ANNUAL REPORT

The Hospital's financial statements consist of three statements, a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These 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 Statement of Net Position and 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 Statement of Net Position and the 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 net position and changes in them. You can think of the Hospital's 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.

USING THIS ANNUAL REPORT (CONTINUED)

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.

The Statement of Cash Flows

The final required statement is the 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 NET POSITION

The Hospital's net position is the difference between its assets and deferred outflows of resources, and its liabilities and deferred inflows of resources reported in the Statement of Net Position on page 3. The Hospital's net position increased by $6,717,735 or 9.1% in 2025, and increased by $6,290,041 or 9.3% in 2024, as you can see from **Table 1**.

Table 1:	2025	2024	2023
Assets and Deferred Outflows of Resources:			
Current Assets	$ 71,935,523	$ 74,417,721	$ 67,255,360
Capital Assets (Net)	28,244,620	18,359,003	19,019,607
Other Non-Current Assets	662,226	859,886	756,513
Deferred Outflows of Resources	-	-	61,650
Total Assets and Deferred Outflows of Resources	$ 100,842,369	$ 93,636,610	$ 87,093,130
Liabilities:			
Long-Term Debt Outstanding	$ 13,450,820	$ 14,345,444	$ 15,000,000
Other Current and Non-Current	6,946,221	5,563,573	4,655,578
Total Liabilities	20,397,041	19,909,017	19,655,578
Net Position:			
Net Investment in Capital Assets	14,793,800	4,013,559	4,019,607
Restricted:			
Capital Acquisitions and Scholarships	639,880	836,890	729,309
Unrestricted	65,011,648	68,877,144	62,688,636
Total Net Position	80,445,328	73,727,593	67,437,552
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 100,842,369	$ 93,636,610	$ 87,093,130

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

The Hospital's net position increased by $6,717,735 or 9.1% in 2025, and increased by $6,290,041 or 9.3% in 2024. This change is made up of different components, as shown in **Table 2**.

Table 2:	2025	2024	2023
Operating Revenues:			
Net Patient Service Revenue	$ 31,805,896	$ 31,116,347	$ 32,555,342
Nursing Home Revenue	21,354,542	20,251,008	20,869,295
Other Operating Revenue	1,578,458	1,176,629	904,185
Total Operating Revenue	54,738,896	52,543,984	54,328,822
Operating Expenses:			
Salaries, Wages and Benefits	20,764,783	20,648,011	19,935,371
Other Operating Expenses	22,196,679	20,971,715	20,841,948
Nursing Home	21,027,213	19,295,957	19,517,273
Depreciation and Amortization	2,168,967	2,353,885	2,135,069
Total Operating Expenses	66,157,642	63,269,568	62,429,661
Operating Loss	(11,418,746)	(10,725,584)	(8,100,839)
Nonoperating Revenues (Expenses):			
Property Tax Revenue	16,020,135	15,154,235	12,778,687
Noncapital Grants and Contributions	15,828	14,817	7,753
Federal Financial Assistance	293,928	75,000	1,149,607
Community Benefit Support	795,994	842,275	721,417
Intergovernmental Transfer	(887,331)	(679,251)	(589,025)
Investment Income	2,144,677	2,091,668	640,881
Interest Expense	(789,650)	(827,974)	(40,876)
Tobacco Settlement Revenue	326,504	248,309	211,649
Loss on Disposal of Assets	(50,238)	-	-
Total Nonoperating Revenues (Expenses)	17,869,847	16,919,079	14,880,093
Excess of Revenues over Expenses Before Capital Grants and Contributions	6,451,101	6,193,495	6,779,254
Capital Grants and Contributions	266,634	96,546	230,660
Increase in Net Position	6,717,735	6,290,041	7,009,914
Net Position, Beginning of Year	73,727,593	67,437,552	60,427,638
Net Position, End of Year	$ 80,445,328	$ 73,727,593	$ 67,437,552

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION (CONTINUED)

Operating Loss

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

The primary components of the increased operating loss in 2025 are:

- An increase in nursing home expenses of $1,731,256 or 9.0%.
- An increase in employee benefits of $424,157 or 11.8%.
- An increase in professional fees and purchased services expense of $1,262,225 or 11.4%.

The primary components of the increased operating loss in 2024 are:

- A decrease in net patient service revenues of $1,438,995 or 4.4%.
- An increase in depreciation and amortization expense of $218,816 or 10.2%.
- An increase in salaries, wages, and benefits expense of $712,640 or 3.6%.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of property taxes levied by the Hospital and investment income. Property tax revenue for 2025 and 2024 was $16,020,135 and $15,154,235, respectively. The increase in property tax revenue is attributable to the increase in assessed property values. In 2025 and 2024, the Hospital recognized $2,144,677 and $2,091,668 in investment income, respectively.

Grants, Contributions, and Endowments

The Hospital recognized $266,634 and $96,546 in capital grant revenue in 2025 and 2024, respectively. Noncapital grant revenue recognized in 2025 and 2024 was $15,828 and $14,817, respectively.

THE HOSPITAL'S CASH FLOWS

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

As of June 30, 2025 and 2024, the Hospital had $28,244,620 and $18,359,003, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 11 of the audited financial statements. The Hospital purchased $12,104,823 and $1,631,631 in capital assets in fiscal years 2025 and 2024, respectively.

Debt

As of June 30, 2025 and 2024, the Hospital had $13,450,820 and $14,345,444 respectively, in long-term debt outstanding as detailed in Note 12 of the audited financial statements. During fiscal years 2025 and 2024 the Hospital made principal payments of $894,624 and $654,556 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

FINANCIAL STATEMENTS

AS OF AND FOR THE YEARS ENDED
JUNE 30, 2025 AND 2024

GONZALES HEALTHCARE SYSTEMS

STATEMENTS OF NET POSITION

AS OF JUNE 30, 2025 AND 2024

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:	2025	2024
CURRENT ASSETS		
Cash and Cash Equivalents	$ 7,392,296	$ 13,274,656
Short-Term Investments	43,745,196	39,453,344
Assets Whose Use is Limited - Internally Designated	1,470,205	520,792
Patient Accounts Receivable, Net of Allowance	3,135,290	4,088,821
Accounts Receivable - Nursing Home	12,356,267	11,561,992
Estimated Third-Party Payor Settlements	223,264	280,981
Other Receivables	2,060,855	3,874,290
Inventory of Supplies	796,076	689,219
Prepaid and Other Current Assets	704,150	621,281
Property Taxes Receivable	51,924	52,345
Total Current Assets	71,935,523	74,417,721
RESTRICTED ASSETS	639,880	836,890
CAPITAL ASSETS,		
Net of Accumulated Depreciation	28,244,620	18,359,003
OTHER ASSETS	22,346	22,996
Total Assets and Deferred Outflows of Resources	$ 100,842,369	$ 93,636,610

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

GONZALES HEALTHCARE SYSTEMS

STATEMENTS OF NET POSITION

AS OF JUNE 30, 2025 AND 2024

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION:	2025	2024
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 734,536	$ 694,623
Accounts Payable	2,980,259	1,835,579
Accounts Payable - Nursing Home	1,794,218	1,218,186
Accrued Payroll, Benefits, and Related Liabilities	1,647,226	1,492,561
Self Funded Health Insurance	311,577	375,176
Other Accrued Liabilities	212,941	642,071
Total Current Liabilities	7,680,757	6,258,196
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Portion	12,716,284	13,650,821
Total Liabilities	20,397,041	19,909,017
NET POSITION		
Net Investment in Capital Assets	14,793,800	4,013,559
Restricted:		
Capital Acquisitions and Scholarships	639,880	836,890
Unrestricted	65,011,648	68,877,144
Total Net Position	80,445,328	73,727,593
Total Liabilities, Deferred Inflows of Resources and Net Position	$ 100,842,369	$ 93,636,610

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

GONZALES HEALTHCARE SYSTEMS

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

AS OF AND FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

	2025	2024
OPERATING REVENUES:		
Net Patient Service Revenue	$ 31,805,896	$ 31,116,347
Nursing Home Revenue	21,354,542	20,251,008
Other Operating Revenue	1,578,458	1,176,629
Total Operating Revenues	54,738,896	52,543,984
OPERATING EXPENSES:		
Salaries and Wages	16,742,436	17,049,821
Employee Benefits	4,022,347	3,598,190
Professional Fees and Purchased Services	12,345,635	11,083,410
Supplies and Other	9,851,044	9,888,305
Nursing Home	21,027,213	19,295,957
Depreciation and Amortization	2,168,967	2,353,885
Total Operating Expenses	66,157,642	63,269,568
Operating Loss	(11,418,746)	(10,725,584)
NONOPERATING REVENUES (EXPENSES):		
Property Tax Revenue	16,020,135	15,154,235
Noncapital Grants and Contributions	15,828	14,817
Federal Financial Assistance	293,928	75,000
Community Benefit Support	795,994	842,275
Intergovernmental Transfer	(887,331)	(679,251)
Investment Income	2,144,677	2,091,668
Interest Expense	(789,650)	(827,974)
Tobacco Settlement Revenue	326,504	248,309
Loss on Disposal of Assets	(50,238)	-
Total Nonoperating Revenues (Expenses)	17,869,847	16,919,079
Excess of Revenues Over Expenses Before Capital Grants and Contributions	6,451,101	6,193,495
Capital Grants and Contributions	266,634	96,546
Increase in Net Position	6,717,735	6,290,041
Net Position, Beginning of Year	73,727,593	67,437,552
Net Position, End of Year	$ 80,445,328	$ 73,727,593

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

GONZALES HEALTHCARE SYSTEMS

STATEMENTS OF CASH FLOWS

AS OF AND FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from and on Behalf of Patients	$ 55,715,768	$ 49,381,237
Payments to Suppliers and Contractors	(43,041,153)	(38,097,279)
Payments to Employees	(20,560,369)	(20,446,047)
Other Receipts and Payments, net	1,090,661	1,002,040
Net Cash Used by Operating Activities	(6,795,093)	(8,160,049)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Earnings	4,540,383	1,369,078
Purchase of Investments	(68,480,876)	(85,481,332)
Proceeds From Sale of Investments	61,876,000	46,726,860
Net Cash Used by Investing Activities	(2,064,493)	(37,385,394)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital Grants and Contributions	266,634	96,546
Principal Payments on Long-Term Debt	(894,623)	(654,556)
Interest Payments on Long-Term Debt	(789,650)	(830,308)
Purchase of Capital Assets	(10,545,762)	(1,631,631)
Net Cash Used by Capital and Related Financing Activities	(11,963,401)	(3,019,949)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Property Taxes	16,020,556	15,146,654
Noncapital Grants and Contributions	15,828	14,817
COVID-19 Federal Financial Assistance	293,928	75,000
Payments for Intergovernmental Transfers	(887,331)	(654,076)
Proceeds From Tobacco Settlement	326,504	248,309
Net Cash Provided by Noncapital Financing Activities	15,769,485	14,830,704
Net Decrease in Cash and Cash Equivalents	(5,053,502)	(33,734,688)
Cash and Cash Equivalents, Beginning of Year	14,094,494	47,829,182
Cash and Cash Equivalents, End of Year	$ 9,040,992	$ 14,094,494

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

GONZALES HEALTHCARE SYSTEMS

STATEMENTS OF CASH FLOWS (CONTINUED)

AS OF AND FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

	2025	2024
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	$ 7,392,296	$ 13,274,656
Assets Whose Use is Limited - Current	1,470,205	520,792
Restricted Assets	178,491	299,046
	$ 9,040,992	$ 14,094,494
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating Loss	$ (11,418,746)	$ (10,725,584)
Adjustments to Reconcile Operating Loss to Net Cash Flows Used by Operating Activities:		
Depreciation and Amortization	2,168,967	2,353,885
Provision for Bad Debts	3,164,382	2,703,589
Community Benefit Support	795,994	842,275
(Increase) Decrease in:		
Accounts Receivable	(2,210,851)	(2,937,014)
Accounts Receivable - Nursing Home	(794,275)	(373,997)
Prepaid Expenses and Other Current Assets	1,617,482	(962,042)
Estimated Third-Party Payor Settlements	57,717	24,302
Other Long-Term Assets	650	4,208
Increase (Decrease) in:		
Accounts Payable	(414,381)	1,168,239
Accounts Payable - Nursing Home	576,032	52,819
Accrued Salaries and Benefits Payable	154,665	154,940
Other Accrued Liabilities	(492,729)	(465,669)
Net Cash Used By Operating Activities	$ (6,795,093)	$ (8,160,049)
Supplemental Disclosure of Noncash Investing and Financing Activities		
Capital Asset Acquisitions Included in Accounts Payable	$ 1,559,061	$ -
Net Change in Fair Value of Investments	$ 20,748	$ 723,988

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Gonzales Healthcare Systems (the "Hospital"), is an acute care Hospital located in Gonzales, Texas, is a political subdivision created and operating under the laws of the State of Texas. Operations consist of a 33-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. 101 – In June 2022, the Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 101 – *Compensated Absences.* The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The Statement is effective for fiscal years beginning after December 15, 2023, with earlier application encouraged. Implementation of this Statement had no effect on the Hospital's change in net position.

GASB Statement No. 102 – In December 2023, the Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 102 – *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The Statement is effective for fiscal years beginning after June 15, 2024, with earlier application encouraged. Implementation of this Statement had no effect on the Hospital's change in net position.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pending Adoption of Recent Accounting Pronouncements:

GASB Statement No. 103 – In April 2024, the Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 103 – *Financial Reporting Model Improvements*. The objective of this Statement is to improve key components of the financial reporting model to enhance its effectiveness in providing information that is essential for decision making and assessing a government's accountability. This Statement also addresses certain application issues. The Statement is effective for fiscal years beginning after June 15, 2025, with earlier application encouraged. Management is currently evaluating the effect this Statement will have on the financial statements and related disclosures.

GASB Statement No. 104 – In September 2024, the Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 104 – *Disclosure of Certain Capital Assets*. The objective of this Statement is to provide users of government financial statements with essential information about certain types of capital assets. The statement is effective for fiscal years beginning after June 15, 2025, with earlier application encouraged. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

Use of Estimates – The preparation of 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 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. As of June 30, 2025 and 2024, 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 contractual adjustments 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 as of June 30, 2025 and 2024.

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 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 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.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Federal Income Taxes (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.

NOTE 2 – NET PATIENT REVENUE

The Hospital has agreements with third-party payors that provide 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.

NOTE 2 – NET PATIENT REVENUE (CONTINUED)

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 $5,961,743 in 2025 and $6,320,642 in 2024. 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 $3,390,000 and $3,565,000 for the years ended June 30, 2025 and 2024, respectively.

Net patient service revenue is comprised as follows:

	2025	2024
Routine Patient Services	$ 1,582,067	$ 1,668,986
Ancillary Patient Services		
Inpatient	6,703,761	6,936,077
Outpatient	60,228,414	59,354,585
Gross Patient Service Revenue	68,514,242	67,959,648
Charity	(5,961,743)	(6,320,642)
Third-Party Contractual Adjustments	(32,347,144)	(31,403,878)
Provision for Bad Debts	(3,164,382)	(2,703,589)
Medicaid Disproportionate Share and Other Credits	4,764,923	3,584,808
Net Patient Service Revenue	$ 31,805,896	$ 31,116,347

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 financial statements as they are determined by the Hospital. Estimated third-party payor settlements recorded in current assets as of July 1, 2023 was $305,283. Estimated third-party payor settlements recorded in current assets as of June 30, 2025 and 2024 are $223,264 and $280,981, respectively.

NOTE 3 – SECTION 1115 DEMONSTRATION WAIVER PROGRAM

Uncompensated Care – The Hospital participated in the Section 1115 Demonstration Waiver Program; a program designed to benefit rural community hospitals. This program is facilitated through the Hospital providing an intergovernmental transfer whereby federal matching funds are provided to supplement the Hospital for the shortfall in Medicaid funding. In connection with this program, the Hospital provided intergovernmental transfers of $1,210,206 and $549,616, and received $3,220,025 and $1,443,968 for the years ended June 30, 2025 and 2024, respectively. The Hospital recognized net revenue of $2,009,819 and $894,352 for the years ended June 30, 2025 and 2024, respectively. The respective net revenue is included within net patient service revenue in the 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 $795,994 and $842,275 for the years ended June 30, 2025 and 2024, respectively.

As part of the affiliation agreement, the Hospital provided $887,331 and $679,251 in funding to the program for the years ended June 30, 2025 and 2024, respectively.

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. The program will include two components:

- Component 1, UHRIP component, which provides a unform rate enhancement on all Hospital inpatient and outpatient service claims.
- Component 2, Average Commercial Inventive 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.

NOTE 3 – SECTION 1115 DEMONSTRATION WAIVER PROGRAM

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 $110,411 and $85,510 for the years ended June 30, 2025 and 2024, respectively. Additionally, the Hospital recorded prepaid CHIRP IGT as of June 30, 2025 and 2024 in the amount of $57,122 and $85,510, 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. 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 records use and telemedicine / telehealth capabilities.
- 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 $234,709 and $342,830 for the years ended June 30, 2025 and 2024, respectively. Additionally, the Hospital recorded prepaid RAPPS IGT as of June 30, 2025 and 2024 in the amount of $234,709 and $199,347, respectively.

NOTE 4 – NURSING HOME OPERATIONS

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

The Hospital has also received an assignment or transfer of the Medicare and Medicaid Provider agreements.

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

NOTE 4 – NURSING HOME OPERATIONS (CONTINUED)

Also, effective December 31, 2013, The Hospital has executed a management and operations agreement with Touchstone Strategies, LLC, whereby Touchstone will manage and operate the Nursing Home. The initial term of this agreement is from December 31, 2013, through December 31, 2015, unless sooner terminated. The agreement shall be automatically renewed for two consecutive two year periods unless either party cancels in writing on or before 90 days prior to the end of the current term. Under this agreement, the Hospital shall pay Touchstone Strategies, LLC a base management fee equal to 12% of operating revenue on the 15th and 30th day of each month on a pro rata basis. Additionally, the Hospital must pay Touchstone Strategies, LLC a per diem census fee of $150 per actual occupied bed day for the preceding month. The amount of each monthly per diem census fee will be reduced by any payments made by the Hospital under the lease and not previously reimbursed. If there are insufficient operating revenue funds to pay the base management fee and/or the per diem census fee in any month, the shortfall shall accrue as a liability to the Hospital. The Hospital is also required to pay a supplemental management fee equal to 50% of total other revenue collected by the Hospital in connection with the operation of the Nursing Home.

In addition, 10% of the total other revenue collected by the Hospital in connection with the operation of the Nursing Home shall be deposited into a quality incentive reserve account for which Touchstone Strategies, shall be eligible to receive up to the full amount for the achievement of mutually agreed upon quality incentive criteria. For the years ended June 30, 2025 and 2024, the Hospital recorded total fees and expenses of $9,074,487 and $8,841,406, respectively. These expenses are included in Nursing Home expenses on the statements of revenues, expenses, and changes in net position. Of this amount, $1,794,218 and $1,218,186 is recorded as a liability in Nursing Home Payable on the statements of net position as of June 30, 2025 and 2024, respectively.

AVIR at Gonzales (formerly known as 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.

NOTE 4 – NURSING HOME OPERATIONS (CONTINUED)

Also, effective January 1, 2015, The Hospital has executed a management and operations agreement with Gonzales Nursing Operations, LLC, whereby Gonzales Nursing Operations, LLC will manage and operate the Texan Nursing Home. The initial term of this agreement is from January 1, 2015 through August 31, 2016, unless sooner terminated. The agreement shall be automatically renewed for two consecutive two year periods unless either party cancels in writing on or before 90 days prior to the end of the current term. Under this agreement, the Hospital shall pay Gonzales Nursing Operations, LLC a base management fee equal to 5% of ordinary revenues on a pro rata basis within five business days after the closing of the previous month's books. Additionally, the Hospital must pay Gonzales Nursing Operations, LLC incentive payments equal to 50% of net operating income within five business days after the closing of the previous month's books.

Effective February 28, 2025, The Hospital has executed a management and subordination of management fees agreement with 3428 Moulton Road OPCO, LLC, whereby 3428 Moulton Road OPCO, LLC will manage and operate AVIR at Gonzales (formerly known as Texan Nursing and Rehab of Gonzales). The initial term of this agreement is from February 28, 2025 through March 1, 2026, unless sooner terminated. Upon expiration of the Initial Term and each year thereafter, this agreement shall automatically renew for a one-year period unless either party provides written notice of its intention to renew at least thirty-five days before the expiration of the Initial Term or any Extended Term. Under this agreement, the Hospital shall pay 3428 Moulton Road OPCO, LLC a base management fee equal to 5% of ordinary revenue recorded for such month. Additionally, the Hospital must pay 3428 Moulton Road OPCO, LLC incentive payments equal to 50% of net operating income. For the years ended June 30, 2025 and 2024, the Hospital recorded total fees and expenses of $4,065,257 and $3,714,190, respectively. The expenses are included in Nursing Home expenses on the statements of revenues, expenses, and changes in net position.

AVIR at Magnolia (formerly known as 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.

NOTE 4 – NURSING HOME OPERATIONS (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.

Effective February 28, 2025, The Hospital has executed a management and subordination of management fees agreement with 1105 N Magnolia OPCO, LLC, whereby 1105 N Magnolia OPCO, LLC will manage and operate AVIR at Magnolia (formerly known as Magnolia Living and Rehabilitation). The initial term of this agreement is from February 28, 2025 through March 1, 2026, unless sooner terminated. Upon expiration of the Initial Term and each year thereafter, this agreement shall automatically renew for a one-year period unless either party provides written notice of its intention to renew at least thirty-five days before the expiration of the Initial Term or any Extended Term. Under this agreement, the Hospital shall pay 1105 N Magnolia OPCO, LLC a base management fee equal to 5% of ordinary revenue recorded for such month. Additionally, the Hospital must pay 1105 N Magnolia OPCO, LLC incentive payments equal to 50% of net operating income. For the years ended June 30, 2025 and 2024, the Hospital recorded total fees and expenses of $7,887,469 and $6,740,361, respectively. The expenses are included in Nursing Home expenses on the 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 $2,908,000 and $2,346,000 for the years ended June 30, 2025 and 2024, respectively. Of this amount, approximately $485,000 and $1,751,000 is recorded in other receivables on the statements of net position as of June 30, 2025 and 2024, respectively. The Hospital recognized net revenue of approximately $2,962,000 and $1,985,000 for the years ended June 30, 2025 and 2024, respectively.

NOTE 5 – DEPOSITS WITH FINANCIAL INSTITUTIONS

As of June 30, 2025 and 2024, the carrying amount of the Hospital's deposits with financial institutions was $9,498,951 and $14,629,262, respectively, and the bank balance was $9,827,144 and $14,966,057, respectively.

The bank balance is categorized as follows:

	2025	2024
Amount Insured by the FDIC	$ 695,412	$ 815,975
Amount Collateralized with Securities Held by the Pledging Financial Institution's Trust Department in the Hospital's Name	8,619,684	13,862,238
Uncollaterized	512,048	287,844
Total Bank Balance	$ 9,827,144	$14,966,057

NOTE 6 – INVESTMENTS

The Hospital's investments consist of US Treasury Bills held by Gonzales Healthcare Systems, reported at fair market value. Fair market value is determined using the quoted market price as of June 30, 2025.

Interest Rate Risk – Interest rate risk is the risk that market values of investments will change based on changes in market interest rates. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the District's policy to prohibit certain types of more risky investments. It is also the District's policy to require investments pools to have no lower than AAA or AAA-m or at an equivalent rating by at least one nationally recognized rating service, unless otherwise authorized.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

	June 30, 2025				
		Maturity (in years)			
		Less than 1	1-5	6-10	More than 10
Investment Type	Fair Value	Prior to 6/30/2026	7/1/2026 - 6/30/2030	7/1/2030 - 6/30/2035	After 7/1/2035
US Treasury Bills	$43,745,196	$43,745,196	$ -	$ -	$ -
Cash & Cash Equivalents	835	835	-	-	-
Total Cash & Investments	$43,746,031	$43,746,031	$ -	$ -	$ -

NOTE 6 – INVESTMENTS (CONTINUED)

	June 30, 2024				
		Maturity (in years)			
Investment Type	Fair Value	Less than 1 Prior to 6/30/2025	1-5 7/1/2025 - 6/30/2029	6-10 7/1/2029 - 6/30/2034	More than 10 After 7/1/2034
US Treasury Bills	$39,453,344	$39,453,344	$ -	$ -	$ -
Cash & Cash Equivalents	481	481	-	-	-
Total Cash & Investments	$39,453,825	$39,453,825	$ -	$ -	$ -

NOTE 7 – PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable, net of allowances on July 1, 2023 was $3,855,396. Patient accounts receivable consist of the following as of June 30:

	2025	2024
Gross Accounts Receivable	$10,864,821	$10,597,446
Less: Allowance for Bad Debts	(4,737,224)	(2,413,950)
Allowance for Contractuals	(2,992,307)	(4,094,675)
Accounts Receivable, Net of Allowance	$ 3,135,290	$ 4,088,821

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, 2025 and 2024 is as follows:

	2025	2024
Medicare	22%	33%
Medicaid	6%	10%
Other Third-Party Payors	27%	30%
Patients	45%	27%
Total	100%	100%

NOTE 8 – ASSETS WHOSE USE IS LIMITED AND RESTRICTED ASSETS

The composition of assets whose use is limited and restricted assets as of June 30, 2025 and 2024 is set forth in the following table:

	2025	2024
Internally Designated for Capital Acquisitions:		
Cash and Cash Equivalents	$ 1,288,217	$ 350,463
Internally Designated for Nursing Home Operations:		
Cash and Cash Equivalents	36,627	28,921
Internally Designated for Debt Service:		
Cash and Cash Equivalents	145,361	141,408
Total Assets Whose Use is Limited	1,470,205	520,792
Restricted for Capital Acquisitions and Scholarships:		
Cash and Cash Equivalents	178,491	299,046
Certificates of Deposit - Long-Term	461,389	537,844
Total Restricted for Capital Acquisitions and Scholarships	639,880	836,890
Total Assets Whose Use is Limited and Restricted Assets	2,110,085	1,357,682
Less: Current Portion	(1,470,205)	(520,792)
Noncurrent Portion	$ 639,880	$ 836,890

NOTE 9 – RESTRICTED NET POSITION

As of June 30, 2025 and 2024, restricted expendable net position was available for the following purposes:

	2025	2024
Restricted for Capital Acquisitions and Scholarships:		
Cash and Cash Equivalents	$ 178,491	$ 299,046
Certificates of Deposit	461,389	537,844
Total Restricted Expendable Net Position	$ 639,880	$ 836,890

NOTE 10 – 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 2025 and 2024 was $16,020,135 and $15,154,235, respectively.

NOTE 10 – TAXES RECEIVABLE (CONTINUED)

As of June 30, 2025 and 2024, the balance of property taxes receivable and its related allowance for uncollectible taxes are as follows:

	2025	2024
Property Taxes Receivable	$ 1,286,638	$ 1,196,167
Less: Allowance for Uncollectible Taxes	(1,234,714)	(1,143,822)
Taxes Receivable, Net of Allowance	$ 51,924	$ 52,345

NOTE 11 – CAPITAL ASSETS

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

	Balance 06/30/24	Additions	Reclass/ Retirements	Balance 06/30/25
Capital Assets				
Land	$ 440,182	$ -	$ -	$ 440,182
Land Improvements	264,965	-	(104,986)	159,979
Building and Improvements	28,245,442	45,777	(502,095)	27,789,124
Equipment	27,527,661	819,029	(8,668,409)	19,678,281
Construction in Progress	1,473,798	11,240,017	-	12,713,815
Totals at Historical Cost	57,952,048	12,104,823	(9,275,490)	60,781,381
Less Accumulated Depreciation:				
Land Improvements	(272,253)	-	104,986	(167,267)
Building and Improvements	(15,035,411)	(1,079,320)	493,609	(15,621,122)
Equipment	(24,285,381)	(1,089,648)	8,626,657	(16,748,372)
Total Accumulated Depreciation	(39,593,045)	(2,168,968)	9,225,252	(32,536,761)
Capital Assets, Net	$ 18,359,003	$ 9,935,855	$ (50,238)	$ 28,244,620

NOTE 11 – CAPITAL ASSETS (CONTINUED)

	Balance 06/30/23	Additions	Reclass/ Retirements	Balance 06/30/24
Capital Assets				
Land	$ 440,182	$ -	$ -	$ 440,182
Land Improvements	264,965	-	-	264,965
Building and Improvements	28,219,516	17,585	8,341	28,245,442
Equipment	26,473,737	236,537	817,387	27,527,661
Construction in Progress	922,017	1,377,509	(825,728)	1,473,798
Totals at Historical Cost	56,320,417	1,631,631	-	57,952,048
Less Accumulated Depreciation:				
Land Improvements	(272,253)	-	-	(272,253)
Building and Improvements	(13,947,966)	(1,087,445)	-	(15,035,411)
Equipment	(23,080,591)	(1,204,790)	-	(24,285,381)
Total Accumulated Depreciation	(37,300,810)	(2,292,235)	-	(39,593,045)
Capital Assets, Net	$ 19,019,607	$ (660,604)	$ -	$ 18,359,003

Construction in progress as of June 30, 2025 and 2024 was $12,713,815 and $1,473,798, respectively. The balance in construction in progress includes costs incurred related to the Hospital expansion and renovation project. The project has an estimated cost of $17,500,000 and an estimated completion date of June 1, 2026.

NOTE 12 – LONG-TERM DEBT

The following is a summary of long-term debt as of June 30:

	Balance 06/30/24	Additions	Reductions	Balance 06/30/25	Due Within One Year
Bonds Payable:					
Series 2023	$ 14,345,444	$ -	$ (894,624)	$ 13,450,820	$ 734,536
Total Long-Term Debt	$ 14,345,444	$ -	$ (894,624)	$ 13,450,820	$ 734,536

	Balance 06/30/23	Additions	Reductions	Balance 06/30/24	Due Within One Year
Bonds Payable:					
Series 2023	$ 15,000,000	$ -	$ (654,556)	$ 14,345,444	$ 694,623
Total Long-Term Debt	$ 15,000,000	$ -	$ (654,556)	$ 14,345,444	$ 694,623

NOTE 12 – LONG-TERM DEBT (CONTINUED)

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

	Bonds Payable	
For the Year Ending June 30,	Principal	Interest
2026	$ 734,536	$ 745,783
2027	776,743	703,577
2028	821,374	658,945
2029	868,570	611,749
2030	918,478	561,841
2031-2035	5,447,351	1,954,246
2036-2040	3,883,768	362,562
Total	$ 13,450,820	$ 5,598,703

The terms and due dates of the Hospital's long-term debt at June 30, 2025 and 2024 is as follows:

- **Series 2023:** $15,000,000 Gonzales Healthcare Systems General Revenue Bonds, Series 2023, dated June 1, 2023. The Bonds are issued as serial bonds maturing July 15, 2023, through June 15, 2038. Interest is payable each fifteenth day of each month until maturity with an interest rate of 5.60%. Proceeds from the sale of the Bonds were used for the construction and renovation of a surgical facility and Hospital rooms and to pay the costs associated with the issuance of the Bonds.

The amount of interest cost incurred for the years ended June 30, 2025 and 2024 was $789,650 and $827,974, respectively, all of which was charged to operations.

NOTE 13 – 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 percent. For the years ended June 30, 2025 and 2024, the Hospital made contributions of $286,186 and $286,587, respectively, and employee contributions were $480,890 and $522,860, respectively.

NOTE 14 – 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.

NOTE 15 – 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 2025 and 2024 is summarized as follows:

	2025	2024
Balance, Beginning of Year	$ 375,176	$ 261,343
Current Year Claims Incurred and Changes in Estimates for Claims Incurred in Prior years	2,193,040	2,170,046
Claims and Expenses Paid	(2,256,639)	(2,056,213)
Balance, End of Year	$ 311,577	$ 375,176

NOTE 16 – MEDICAL MALPRACTICE CLAIMS

The Hospital is a unit of government covered by the Texas Tort Claims Acts which, by statute, limits its liability to $100,000 per person / $300,000 per occurrence. These limits coincide with the malpractice insurance coverage maintained by the Hospital. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

NOTE 17 – 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, 2025 and 2024, were $1,041,990 and $1,103,639, respectively.

NOTE 18 – 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 2025 and 2024, the Hospital recognized $1,384,356 and $1,778,425, respectively, in disproportionate share revenue.

NOTE 19 – 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, 2025 and 2024, 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. If the project is completed sooner, the ten-year abatement period shall begin on January 1, 2019 and end on December 31, 2028. In order to receive an abatement, BYK must diligently and in good faith pursue a completion date of capital improvements on or before December 31, 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.

NOTE 20 – FEDERAL FINANCIAL ASSISTANCE

Interlocal Agreement Funds – The Texas State Energy Conservation Office utilized federal funds provided and approved by the United States Department of Energy to assist states, local governments and Tribes in implementing strategies to reduce energy use, reduce fossil fuel emissions and improve energy efficiency. The Hospital's payments are limited to reimbursements of actual authorized costs incurred pursuant to the budget provided. For the years ended June 30, 2025 and 2024, the Hospital incurred allowable expenditures and recognized revenue in the amount of $293,928 and $-0-, respectively.

NOTE 20 – FEDERAL FINANCIAL ASSISTANCE (CONTINUED)

Rural Health Facility Capital Improvement (CIP) Program – The Texas Department of Agriculture utilized funds from the Permanent Fund to distribute to rural, public and non-profit Hospitals to make capital improvements to existing facilities, construct new health facilities, or to purchase capital equipment. For the years ended June 30, 2025 and 2024, the Hospital incurred allowable expenditures and recognized federal financial assistance revenue in the amount of $-0- and $75,000, respectively.

For the years ended June 30, 2025 and 2024, the Hospital incurred allowable expenditures and recognized Federal Financial Assistance revenue in the amount of $293,928 and $75,000, respectively. The respective revenue is included in nonoperating revenues (expenses) in the accompanying statements of revenues, expenses, and changes in net position.

NOTE 21 – SUBSEQUENT EVENTS

The date to which events occurring after June 30, 2025, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosure is November 26, 2025, which is the date on which the financial statements were available to be issued.