BELLVILLE HOSPITAL DISTRICT

FINANCIAL STATEMENTS

JUNE 30, 2025 AND 2024

CPAs / ADVISORS

blue

BELLVILLE HOSPITAL DISTRICT

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JUNE 30, 2025 AND 2024

CPAs/ADVISORS

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REPORT OF INDEPENDENT AUDITORS

Board of Directors
Bellville Hospital District
Bellville, Texas

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Bellville Hospital District, (the "District"), which comprise the statements of net position as of June 30, 2025 and 2024, and the related statements of revenues, expenses, and changes in net position, and cash flows for the years then ended, and the related notes to financial statements.

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

Basis for Opinion

We conducted our audit 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 District, 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 opinion.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 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 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 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 and disclosures in the financial statements.

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

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

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 8 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. 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 audit 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.

Blue & Co., LLC

Fort Worth, Texas
June 10, 2026

BELLVILLE HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2025 AND 2024
(Unaudited)

Our discussion and analysis of Bellville Hospital District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal years ended June 30, 2025 and 2024. Please read it in conjunction with the District's financial statements, which begin on page 9.

FINANCIAL HIGHLIGHTS

- The District's net position reflects a $2,396,910, or 2,523.8%, increase in 2025, and a $493,886 or 83.9% increase in 2024. The increase in 2025 and 2024 is primarily the result of an increase in operating revenue, as detailed below and on page 7.
- The District reported operating revenue in 2025 and 2024 of $3,239,674 and $1,164,715, respectively. The operating revenue in 2025 increased by $2,074,959, or 178.2%, over the operating revenue reported in 2024. The increase in operating in revenue in 2025 and 2024 is due an increase in Quality Incentive Payment Program ("QIPP") revenues.
- Nonoperating revenues and expenses increased by $171,935, or 30.8%, in 2025 as compared to 2024. The increase is due to the recognition of employee retention tax credit revenue of $667,639 and an increase in intergovernmental transfer expense of $680,070 and property tax revenue of $228,495 in 2025 as compared to 2024.

USING THIS ANNUAL REPORT

The District'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 District, including resources held by the District 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 District's finances begins on page 5. One of the most important questions asked about the District's finances is, "Is the District 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 District'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 on the District's net position and changes in them. You can think of the District's net position—the difference between assets, liabilities, and deferred inflows of resources — as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District'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 District.

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 DISTRICT'S NET POSITION

The District's net position is the difference between its assets, liabilities, and deferred inflows of resources reported in the Statements of Net Position on pages 9 and 10. The District's net position increased by $2,396,910, or 2,523.8%, and $493,886, or 83.9%, in 2025 and 2024, respectively, as you can see from **Table 1**.

Table 1: Assets, Liabilities, Deferred Inflows of Resources, and Net Position

	2025	2024	2023
Assets:			
Current Assets	$ 36,726,591	$ 18,097,363	$ 3,739,709
Capital Assets, Net	3,103,268	3,381,008	3,657,060
Lease Receivable, Net of Current Portion	4,954,703	5,504,062	6,009,104
Total Assets	$ 44,784,562	$ 26,982,433	$ 13,405,873
Liabilities and Deferred Inflows of Resources:			
Long-Term Debt Outstanding	$ 2,059,666	$ 2,196,977	$ 2,334,288
Other Current and Non-Current	35,401,907	19,189,897	5,300,432
Total Liabilities	37,461,573	21,386,874	7,634,720
Deferred Inflows of Resources - Lease	5,021,050	5,690,530	6,360,010
Net Position:			
Net Investment in Capital Assets	1,043,602	1,184,031	1,322,772
Unrestricted	1,258,337	(1,279,002)	(1,911,629)
Total Net Position	2,301,939	(94,971)	(588,857)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 44,784,562	$ 26,982,433	$ 13,405,873

OPERATING RESULTS AND CHANGES IN THE DISTRICT'S NET POSITION

In 2025 and 2024, the District's net position increased by $2,396,910 and $493,886, respectively. This change is made up of different components, as you can see from **Table 2**.

Table 2: Statements of Revenues, Expenses, and Changes in Net Position

	2025	2024
Operating Revenues:		
Lease Revenue	$ 669,480	$ 669,480
Nursing Home Revenues	57,093,333	53,819,829
Quality Incentive Payment Program Revenue	3,091,050	1,352,335
Total Operating Revenue	60,853,863	55,841,644
Operating Expenses:		
Professional Fees and Purchased Services	230,351	558,396
Other Operating Expenses	21,364	31,251
Nursing Home Expenses	57,093,333	53,819,829
Depreciation and Amortization	269,141	267,453
Total Operating Expenses	57,614,189	54,676,929
Operating Income	3,239,674	1,164,715
Nonoperating Revenues (Expenses):		
Property Tax Revenue	2,127,822	1,899,327
Community Benefit Support	(2,500,162)	(2,391,017)
Intergovernmental Transfer Expense	(955,667)	(275,597)
Interest Income	516,539	564,912
Interest Expense	(698,935)	(468,454)
Employee Retention Tax Credit	667,639	-
Total Nonoperating Revenues (Expenses)	(842,764)	(670,829)
Increase in Net Position	2,396,910	493,886
Net Position, Beginning of Year	(94,971)	(588,857)
Net Position, End of Year	$ 2,301,939	$ (94,971)

Operating Income

The first component of the overall change in the District's net position is its operating income - generally, the difference between operating revenues and the expenses incurred to perform those services. The District reported operating income in 2025 and 2024 in the amount of $3,239,674 and $1,164,715, respectively.

The primary components of the increase in operating income reported in 2025 are:

- Increase in quality incentive payment program revenue of $1,738,715, or 128.6%
- Decrease in professional fees and purchased services expense of $328,045, or 58.7%

The primary components of the increase in operating income reported in 2024 are:

- Increase in quality incentive payment program revenue $1,352,335, or 100%
- Increase in professional fees and purchased services expense of $512,503, or 1116.7%
- Increase in lease revenue of $334,742, or 100.0%

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of property taxes levied by the District, lease revenue, community benefit support, intergovernmental transfer expenses, interest expense, and interest income, as detailed in **Table 2.** Significant fluctuations are discussed in detail below.

Property tax revenue increased $228,495 and $147,545 in June 30, 2025 and 2024, respectively.

Intergovernmental transfers ("IGT") expense increased $680,070 because of an increase it QIPP IGT requirements for fiscal year 2025.

The District recognized $667,639 in Employee Retention Tax Credit ("ERTC") revenues in 2025. The ERTC program provides refundable payroll tax credits for entities that meet certain eligibility requirements, as detailed in Note 11. Because these revenues are nonrecurring, they resulted in a one-time increase of $667,639 in 2025.

THE DISTRICT'S CASH FLOWS

The primary purpose of the statement of cash flows is to provide relevant information about the cash receipts and cash payments of an entity during a period. The statement of cash flows helps assess:

- An entity's ability to generate future net cash flows.
- Its ability to meet obligations as they come due.
- Its need for financing

THE DISTRICT'S CASH FLOWS (CONTINUED)

	2025	2024
Cash Provided by (Used in):		
Operating Activities	$ 3,429,913	$ (143,054)
Investing Activities	516,539	564,912
Capital and Related Financing Activities	(236,175)	(242,354)
Noncapital Financing Activities	(934,513)	1,009,821
Net Increase in Cash and Cash Equivalents	2,775,764	1,189,325
Cash and Cash Equivalents, Beginning of Year	1,457,619	268,294
Cash and Cash Equivalents, End of Year	$ 4,233,383	$ 1,457,619

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2025 and 2024, the District had $3,103,268 and $3,381,008, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 4 of the financial statements.

Debt

At the end of 2025 and 2024, the District had $2,059,666 and $2,196,977, respectively, in long-term debt. The District made payments on outstanding long-term debt in the amount of $137,311 and $137,311 in 2025 and 2024, respectively.

At the end of 2025 and 2024, the District had $6,784,000 and $7,245,140, respectively, in notes payable, consisting of lines of credit. During 2025, the District made payments, net of draws, in the amount of $461,140.

Economic Outlook

Management believes that the District's margins will continue to be under pressure due to a variety of factors, including, but not limited to, uncertainty regarding healthcare reform, changes in payor and services mix, increases in operating expenses, changes in local property valuations, and changes in the Texas Medicaid Waiver programs. Management continues to anticipate and monitor these changes and face challenges to ensure the District will continue to support the provision of healthcare and pharmaceutical services to Bellville, Texas and the surrounding area.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact administration at Bellville Hospital District, 44 North Cummings, Bellville, Texas 77418.

BELLVILLE HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

JUNE 30, 2025 AND 2024

ASSETS:	2025	2024
CURRENT ASSETS		
Cash and Cash Equivalents	$ 4,233,383	$ 1,457,619
Nursing Home Accounts Receivable	24,492,115	8,371,227
Lease Receivable, Current Portion	549,359	505,042
Quality Incentive Payment Program Receivable	5,950,910	2,574,975
Prepaids and Other Current Assets	1,429,260	5,116,936
Property Taxes Receivable	71,564	71,564
Total Current Assets	36,726,591	18,097,363
CAPITAL ASSETS		
Land	18,045	18,045
Depreciable Capital Assets, Net	3,085,223	3,362,963
Total Capital Assets, Net	3,103,268	3,381,008
OTHER ASSETS		
Lease Receivable, Net of Current Portion	4,954,703	5,504,062
Total Assets	$ 44,784,562	$ 26,982,433

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

BELLVILLE HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

JUNE 30, 2025 AND 2024

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION:	2025	2024
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 137,311	$ 137,311
Accounts Payable	1,028,768	2,299,737
Notes Payable	6,784,000	7,245,140
Nursing Home Payables	24,492,115	8,371,227
Quality Incentive Payment Program Payable	2,281,540	1,244,129
Other Accrued Liabilities	815,484	29,664
Total Current Liabilities	35,539,218	19,327,208
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Portion	1,922,355	2,059,666
Total Liabilities	37,461,573	21,386,874
DEFERRED INFLOWS OF RESOURCES		
Deferred Inflows - Lease	5,021,050	5,690,530
NET POSITION		
Net Investment in Capital Assets	1,043,602	1,184,031
Unrestricted	1,258,337	(1,279,002)
Total Net Position	2,301,939	(94,971)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 44,784,562	$ 26,982,433

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

BELLVILLE HOSPITAL DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

	2025	2024
OPERATING REVENUES:		
Lease Revenue	$ 669,480	$ 669,480
Nursing Home Revenues	57,093,333	53,819,829
Quality Incentive Payment Program Revenue	3,091,050	1,352,335
Total Operating Revenues	60,853,863	55,841,644
OPERATING EXPENSES:		
Professional Fees and Purchased Services	230,351	558,396
Other Operating Expenses	21,364	31,251
Nursing Home Expenses	57,093,333	53,819,829
Depreciation and Amortization	269,141	267,453
Total Operating Expenses	57,614,189	54,676,929
Operating Income	3,239,674	1,164,715
NONOPERATING REVENUES (EXPENSES):		
Property Tax Revenue	2,127,822	1,899,327
Community Benefit Support	(2,500,162)	(2,391,017)
Intergovernmental Transfer Expense	(955,667)	(275,597)
Interest Income	516,539	564,912
Interest Expense	(698,935)	(468,454)
Employee Retention Tax Credit	667,639	-
Total Nonoperating Revenues (Expenses)	(842,764)	(670,829)
Increase in Net Position	2,396,910	493,886
Net Position, Beginning of Year	(94,971)	(588,857)
Net Position, End of Year	$ 2,301,939	$ (94,971)

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

BELLVILLE HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

	2025	2024
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from and on Behalf of Nursing Home Patients	$ 42,355,908	$ 18,657,753
Lease Receipts	505,042	464,301
Payments to Suppliers and Contractors	(42,850,196)	(15,880,487)
Other Receipts and Payments, Net	3,419,159	(3,384,621)
Net Cash Provided by (Used in) Operating Activities	3,429,913	(143,054)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Interest Earnings	516,539	564,912
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal Payments on Long-term Debt	(137,311)	(137,311)
Interest Paid on Long-term Debt	(98,864)	(105,043)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(236,175)	(242,354)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property Tax Revenues	2,127,822	1,889,247
Payments for Intergovernmental Transfers	(955,667)	(275,597)
Community Benefit Support	(2,500,162)	(2,391,017)
Proceeds from Issuance of Notes Payable	5,499,964	7,994,267
Principal Payments Notes Payable	(5,961,104)	(5,852,267)
Interest Paid on Notes Payable	(591,472)	(354,812)
Employee Retention Tax Credit	1,446,106	-
Net Cash Used In Noncapital Financing Activities	(934,513)	1,009,821
Net Increase in Cash and Cash Equivalents	2,775,764	1,189,325
Cash and Cash Equivalents Balance, Beginning of Year	1,457,619	268,294
Cash and Cash Equivalents Balance, End of Year	$ 4,233,383	$ 1,457,619

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

BELLVILLE HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED JUNE 30, 2025 AND 2024

	2025	2024
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Operating Income	$ 3,239,674	$ 1,164,715
Adjustments to Reconcile Operating Income to Net Cash Provided by (Used In) Operating Activities:		
Depreciation and Amortization	269,141	267,453
(Increase) Decrease in:		
Other Receivables	(3,375,935)	(2,574,975)
Nursing Home Receivables	(16,120,888)	(8,371,227)
Prepaid Expenses and Other Current Assets	3,687,676	(2,171,306)
Lease Receivable	505,042	464,301
Increase (Decrease) in:		
Accounts Payable	(1,270,969)	2,131,798
Nursing Home Payables	16,120,888	8,371,227
Other Accrued Liabilities	1,044,764	1,244,440
Deferred Inflows of Resources	(669,480)	(669,480)
Net Cash Provided by (Used in) Operating Activities	$ 3,429,913	$ (143,054)

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

BELLVILLE HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2025 AND 2024

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – The Bellville Hospital District (the "District") was established pursuant to a special election held on July 27, 1999, in Bellville, Texas, under Section 286 of the Texas Health and Safety Code (effective 1992). The District's purpose is to meet the healthcare needs of the Bellville community and surrounding areas. Governance is provided by a nine-member Board of Directors serving two-year terms.

In December 2010, the District entered into an agreement with Bellville St. Joseph Health Center ("BSJHC"), a 501(c)(3) organization formerly known as Bellville General Hospital, under which certain operating assets were transferred to BSJHC. The District retained ownership of the hospital land, buildings, and related improvements and leased these facilities to BSJHC for ongoing operations.

In May 2019, the District terminated the lease with BSJHC, resulting in the transfer of leasehold assets totaling $1,162,318 to the District from BSJHC. Additionally, the District and BSJHC entered into a Membership Interest Transfer Agreement ("MITA"), where certain assets and operations were transferred back to the District. As part of this transition, the District became the sole corporate member of the organization, which was subsequently renamed Bellville Medical Center ("BMC").

Effective January 1, 2023, the District entered into a new agreement with Mid Coast Health System ("MCHS"), a 501(c)(3) organization, to transfer all operations of the hospital. Under this arrangement, the District continues to retain ownership of all hospital assets and properties. Concurrently, the District entered into a 10-year lease agreement with BMC, with two optional five-year extensions, under which the District leases the hospital land, buildings, and operational assets for $250,000 per quarter.

The accompanying financial statements include the accounts of the District and the following nursing home and rehabilitation facilities: Avir at Arden Wood, Avir at Grapevine, Avir at Beeville, Avir of Richland Hills, Avir of Beaumont, Avir at Golfcrest, and The Shoal.

Enterprise Fund Accounting – The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. The District applies all applicable Governmental Accounting Standards Board ("GASB") pronouncements.

Newly Adopted Accounting Pronouncements:

Governmental Accounting Standards Board ("GASB") Statement No. 100 – In June 2022, GASB issued GASB Statement No. 100 – *Accounting Changes and Error Corrections* – an amendment of GASB Statement No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement is effective for fiscal years beginning after June 15, 2023, with earlier application encouraged. Implementation of this statement had no effect on the District's change in net position.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Newly Adopted Accounting Pronouncements (Continued):

GASB Statement No. 102 – In December 2023, 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. The adoption of GASB 102 did not have a material effect on the financial statements of the District.

Pending Adoption of Recent Accounting Pronouncements:

GASB Statement No. 103 – In April 2024, 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, 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.

GASB Statement No. 105 – In December 2025, GASB issued Statement No. 105 – *Subsequent Events*. The objective of this Statement is to improve the financial reporting requirements for subsequent events, thereby enhancing consistency in their application and better meeting the information needs of financial statement users. The statement is effective for fiscal years beginning after June 15, 2026, 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the end of the reporting period and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – The District considers highly liquid investments with an original maturity of three months or less to be cash equivalents.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Lease Receivables – Lease receivables are recorded at the commencement of a lease, measured at the present value of lease payments expected to be received during the lease term. Lease receivable balances are subsequently reduced as payments are received, with a portion of each payment recognized as interest revenue and the remainder reducing the receivable.

Capital Assets – Capital assets are carried at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. The District has elected to capitalize expenditures over $2,000 and provide for depreciation of capital assets by the straight-line method at rates promulgated by the American Hospital Association, which are designed to amortize the cost of such equipment over its useful life as follows:

Land Improvements	8 to 20 years
Buildings (Components)	5 to 30 years
Fixed Equipment	5 to 25 years
Major Moveable Equipment	5 to 20 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.

Deferred inflows of resources include amounts related to lease receivables, measured at the present value of lease payments expected to be received during the lease term. The deferred inflow of resources is recognized as lease revenue on a straight-line method over the term of the lease.

Net Position – Net position of the District is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets net of related debt or restricted.

Operating Revenues and Expenses – For purposes of display, the District's statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Transactions deemed by management to be ongoing, major, or central to the provision of healthcare services are reported as revenues and expenses. Nonoperating revenues (expenses), which are excluded from income from operations include property taxes, community benefit support, intergovernmental transfers expense, interest income, and interest expense.

Nursing Home Revenues – Nursing home revenues consist of net patient service revenues. These revenues are recognized on the accrual basis of accounting in the reporting period in which services are performed based on the current gross charge structure, less actual adjustments and estimated discounts for contractual allowances, principally for patients covered by Medicare, Medicaid, managed care, and other health plans. Gross patient service revenue is recorded in the accounting records using the established rates for the types of service provided to the patient.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Nursing Home Revenues (Continued) – Estimated contractual allowances reduce gross patient charges to the estimated net realizable amount for services rendered based upon previously agreed-to rates with a payor. 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.

Grants and Contributions – From time to time, the District receives 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. 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.

Federal Income Taxes – The District is a political subdivision under the laws of the State of Texas, and therefore, is exempt from federal and state income taxes pursuant to Section 115 of the Internal Revenue Code and a similar provision of state law.

Community Benefit Support - The District has agreed, after assessment of certain community needs, to provide funding for Medicaid patients and non-Medicaid indigent patients, as well as other patients by its commitment of certain revenues, under its agreement with BMC. In 2025 and 2024, the District recorded $2,500,162 and $2,391,017, respectively, in nonoperating community benefit support expense.

Risk Management – The District is exposed to various risks of loss from torts: theft of, damage to and destruction of assets; business interruption; errors and omissions; natural disaster. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage during the year.

Property Taxes – The District levies taxes as provided under state law on properties within the District. These taxes are collected by the Austin County Appraisal District and are remitted to the District when received. The District's taxes are levied and become collectible from October 1 to January 31 of the succeeding year. The taxes are based on the assessed values listed as of the prior January 1, which is the due date a lien attaches to the taxable property. Property taxes are reported as revenues in the period for which they are levied. Allowances are provided for delinquent taxes.

Subsequent Events – On July 25, 2025, the District obtained a line of credit with Austin County State Bank for $8,478,699 with a maturity date of July 25, 2026, at an interest rate of 7.50%. Subsequent to the 2025 year-end, the District made draws of $4,239,350 and made payments of $2,119,675 to the line of credit.

The date to which events occurring after June 30, 2025, the date of the most recent statements of net position, have been evaluated for possible adjustment to the financial statements or disclosure is June 10, 2026, which is the date on which the financial statements are available to be issued.

NOTE 2 – DEPOSITS WITH FINANCIAL INSTITUTIONS

At June 30, 2025 and 2024, the carrying amount of the District's deposits with financial institutions was $4,233,383 and $1,457,619. The bank balances are categorized as follows:

	2025	2024
Amount Insured by the FDIC	$ 547,523	$ 547,114
Amount Collateralized with Securities Held by the Pledging Financial Institution's Trust Department in the District's Name	2,824,360	910,505
Uncollateralized	861,500	-
Total Bank Balance	$ 4,233,383	$ 1,457,619

NOTE 3 – PROPERTY TAXES RECEIVABLE

Property taxes are levied by the District on October 1 of each year and become delinquent as of February 1 of the following year. Property taxes are reported as revenues in the period for which they are levied. Property tax revenue net of related expenses for 2025 and 2024 was $2,127,822 and $1,899,327, respectively.

At 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	$ 98,529	$ 98,529
Less: Allowance for Uncollectible Taxes	(26,965)	(26,965)
Property Taxes Receivable, Net of Allowance	$ 71,564	$ 71,564

NOTE 4 – CAPITAL ASSETS

The following is a summary of capital assets at cost less accumulated depreciation and amortization:

	Balance 6/30/2024	Additions	Reclass/ Retirements	Balance 6/30/2025
Capital Assets				
Land	$ 18,045	$ -	$ -	$ 18,045
Land Improvements	197,361	-	-	197,361
Buildings and Improvements	8,782,226	-	-	8,782,226
Fixed Equipment	2,524,120	-	-	2,524,120
Capitalized Interest	257,966	-	-	257,966
Totals at Historical Cost	11,779,718	-	-	11,779,718
Less: Accumulated Depreciation for:				
Buildings, Improvements, and Equipment	(8,239,628)	(269,141)	-	(8,508,769)
Capitalized Interest	(159,082)	(8,599)	-	(167,681)
Less Accumulated Depreciation	(8,398,710)	(277,740)	-	(8,676,450)
Capital Assets, Net	$ 3,381,008	$ (277,740)	$ -	$ 3,103,268

	Balance 6/30/2023	Additions	Reclass/ Retirements	Balance 6/30/2024
Capital Assets				
Land	$ 18,045	$ -	$ -	$ 18,045
Land Improvements	197,361	-	-	197,361
Buildings and Improvements	8,782,226	-	-	8,782,226
Fixed Equipment	2,524,120	-	-	2,524,120
Capitalized Interest	257,966	-	-	257,966
Totals at Historical Cost	11,779,718	-	-	11,779,718
Less: Accumulated Depreciation for:				
Buildings, Improvements, and Equipment	(7,972,175)	(267,453)	-	(8,239,628)
Capitalized Interest	(150,483)	(8,599)	-	(159,082)
Less Accumulated Depreciation	(8,122,658)	(276,052)	-	(8,398,710)
Capital Assets, Net	$ 3,657,060	$ (276,052)	$ -	$ 3,381,008

Depreciation expense for the years ended June 30, 2025 and 2024 was $269,141 and $267,453, respectively.

NOTE 5 – LEASE RECEIVABLE

On January 1, 2023, the District entered into a lease agreement to lease the hospital facility and equipment to Bellville Medical Center, a Texas non-profit corporation. The term of the lease agreement is ten years with an option to extend the lease for two additional terms of five years each. The District shall receive quarterly payments of $250,000 each March 31, June 30, September 30, and December 31 during the term of the lease. At lease inception, the District recorded a lease receivable and related deferred inflow of resources in the amount of $6,694,750, which was measured at the present value of future lease payments expected to be received during the lease term, with interest at 8.50%. As of June 30, 2025 and 2024, the District's lease receivable balance was $5,504,062 and $6,009,104, respectively. The deferred inflow of resources is amortized on a straight-line method over the lease term and recognized as lease revenue. Such amortization is included in lease revenue in the accompanying statements of revenues, expenses, and changes in net position. For the years ended June 30, 2025 and 2024, the District recognized $669,480 and $669,480 in lease revenue, respectively, and recognized $516,539 and $564,912 in interest income, respectively. As of June 30, 2025 and 2024, the District's unamortized balance of deferred lease revenue is $5,021,050 and $5,690,530, respectively.

The following is a schedule of the future lease and interest payments on the lease receivable for each of the next five years and thereafter:

	Lease Receivable		
For the Years Ending June 30,	Principal	Interest	Total
2026	$ 549,359	$ 450,641	$ 1,000,000
2027	597,564	402,436	1,000,000
2028	649,999	350,001	1,000,000
2029	707,035	292,965	1,000,000
2030	769,076	230,924	1,000,000
2031-2033	2,231,029	268,971	2,500,000
Total	$ 5,504,062	$ 1,995,938	$ 7,500,000

NOTE 6 – NOTES PAYABLE

The following is a summary of notes payable:

	Balance 06/30/24	Additions	Reductions	Balance 06/30/25
Notes Payable				
Line of Credit - FNB #1	$ 1,000,000	$ 1,591,371	$ (1,266,371)	$ 1,325,000
Line of Credit - FNB #2	2,147,733	-	(2,147,733)	-
Line of Credit - FNB #3	4,097,407	3,908,593	(2,547,000)	5,459,000
Total Notes Payable	$ 7,245,140	$ 5,499,964	$ (5,961,104)	$ 6,784,000

NOTE 6 – NOTES PAYABLE (CONTINUED)

	Balance 06/30/23	Additions	Reductions	Balance 06/30/24
Notes Payable				
Line of Credit - FNB #1	$ 2,200,000	$ 1,000,000	$ (2,200,000)	$ 1,000,000
Line of Credit - FNB #2	2,903,140	2,896,860	(3,652,267)	2,147,733
Line of Credit - FNB #3	-	4,097,407	-	4,097,407
Total Notes Payable	$ 5,103,140	$ 7,994,267	$ (5,852,267)	$ 7,245,140

FNB #1 Line of Credit: Line of credit dated August 31, 2022, with maximum borrowing amount of $5,000,000, carrying an interest rate of 8.50%, payable on August 31, 2023. On August 31, 2023, the District modified the agreement to change the maturity of the line of credit to August 31, 2024, and on August 31, 2024, the District modified the agreement to change the maturity of the line of credit to August 31, 2025, with no changes to maximum borrowing amount or interest rate. The line of credit is secured by all revenues and taxes collected by the District that is not pledged to pay the principal or interest on bonds issued by the District.

On August 31, 2025, the District renewed the line of credit to change the maturity date to August 31, 2026, with no change to the maximum borrowing amount or interest rate. Subsequent to the 2025 year-end, the District made draws of $75,000 and payments of $1,399,000 to the FNB Line of Credit.

FNB #2 Line of Credit: Line of credit dated June 1, 2023, with a maximum borrowing amount of $5,800,000, including interest at prime rate, payable on July 1, 2024. On June 1, 2024, the line of credit was extended to change the maturity of the line of credit to November 25, 2024. The line of credit was paid in full in October 2024. The line of credit was secured by all revenues and taxes collected by the District that is not pledged to pay the principal or interest on bonds issued by the District.

FNB #3 Line of Credit: Line of credit dated May 30, 2024, with a maximum borrowing amount of $8,000,000, including interest at prime rate, payable on May 30, 2025. On May 30, 2025, the District renewed the agreement for an additional 6 months in the amount of $5,459,000 with a maturity date of November 29, 2025, including interest at a rate of 7.50%. The line of credit is secured by all revenues and taxes collected by the District that is not pledged to pay the principal or interest on bonds issued by the District.

Subsequent to the 2025 year-end, the District made payments to the line of credit of $2,000,000.

NOTE 7 – LONG-TERM DEBT

The District's debt includes a bond issued directly to a bank as the sole registered owner, which is reported as a direct borrowing in accordance with GASB Statement No. 88. Direct borrowings are subject to terms that may differ from publicly issued debt, including provisions related to collateral, events of default, and remedies upon default.

NOTE 7 – LONG-TERM DEBT (CONTINUED)

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

	Balance 6/30/2024	Additions	Reductions	Balance 6/30/2025	Due Within One Year
Long-Term Debt:					
Series 2019 Bonds	$ 2,196,977	$ -	$ (137,311)	$ 2,059,666	$ 137,311

	Balance 6/30/2023	Additions	Reductions	Balance 6/30/2024	Due Within One Year
Long-Term Debt:					
Series 2019 Bonds	$ 2,334,288	$ -	$ (137,311)	$ 2,196,977	$ 137,311

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

> **Series 2019 Bond Payable:** Bond payable to bondholder, First National Bank, due in annual installments of various amounts, at 4.50% interest rate, due December 30, 2039. The bond is secured by supplies inventories and certain capital assets.

The following is a schedule of the future principal and interest payments on long-term debt for each of the next five years and thereafter:

	Long-Term Debt		
For the Years	Principal	Interest	Total
Ending June 30,			
2026	$ 137,311	$ 92,685	$ 229,996
2027	137,311	86,506	223,817
2028	137,311	80,327	217,638
2029	137,311	74,148	211,459
2030	137,311	67,969	205,280
2031-2035	686,555	247,160	933,715
2036-2040	686,556	92,685	779,241
Total	$ 2,059,666	$ 741,480	$ 2,801,146

NOTE 8 – COMMITMENTS AND CONTINGENCIES

Litigation – The District 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 District. The District, from time to time, may be subject to claims and suits for other damages as well. In the opinion of management, the ultimate resolution of the above types of legal proceedings will not have a material effect on the District's financial position or results of operations.

NOTE 8 – COMMITMENTS AND CONTINGENCIES (CONTINUED)

Contingent Liability - The District has recorded certain liabilities that are uncertain but considered reasonably likely to occur by management. As described in Note 11, the District recognized Employee Retention Tax Credit (“ERTC”) revenues in prior periods that are subject to examination by the Internal Revenue Service. As of June 30, 2025, the District has recorded a liability for amounts subject to potential recapture, which is included in other accrued liabilities in the statement of net position. While management has recorded its best estimate of the potential repayment, the ultimate resolution of this matter is subject to the outcome of the remaining statute of limitations and any further actions by the IRS. Accordingly, additional amounts could be assessed or resolved in future periods. The District will continue to monitor this matter and adjust the related liability as necessary based on developments.

NOTE 9 – NURSING HOME OPERATIONS

The District has entered into an operations transfer agreement (transfer agreement) with a nursing facility which transferred the operations and certain operating assets to the facility. Pursuant to this agreement, the District has obtained an operating license from the Texas Department of Aging and Disability to operate the Nursing Home. The District has also received an assignment or transfer of the Medicare and Medicaid Provider agreements. In connection with these transfer agreements, the District has recorded all patient revenue and the related accounts receivable.

Nursing Home Revenues – The District has agreements with third-party payors that provide payments to the District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and include estimated retroactive adjustments and provisions for uncollectible accounts. The District has recorded $57,093,333 and $53,819,829 in net patient related revenue for the years ended June 30, 2025 and 2024, respectively. Net patient service revenue for the Nursing Home is comprised as follows:

	2025	2024
Medicare	$ 5,547,329	$ 5,408,787
Medicaid	27,391,697	34,422,909
Managed Care	15,891,212	8,098,329
Private	4,082,489	3,030,577
Commercial	22,015	-
Hospice	2,761,937	2,410,063
Veterans	1,396,654	449,164
	$ 57,093,333	$ 53,819,829

NOTE 9 – NURSING HOME OPERATIONS (CONTINUED)

Nursing Home Rent Expense – In addition to the transfer agreements, the District has also entered into sub-lease agreements for the lease of real property and fixed assets and associated equipment that encompass the nursing homes' physical property. The agreements include initial terms with subsequent renewal periods. The renewal periods are cancellable and do not represent enforceable rights and obligations. Accordingly, the agreements do not meet the criteria for recognition of a lease liability under GASB 87. During the years ended June 30, 2025 and 2024, the District recorded $6,000,500 in total rent expense for all facilities related to these agreements, which is recorded in nursing home expenses in the statements of revenue, expenses, and changes in net position.

Nursing Home Management Fees – Additionally, the District has executed management and operations agreements with nursing home managers, whereby the nursing home managers will manage and operate the nursing homes. The agreement shall be automatically renewed for successive one-year periods unless either party cancels in writing on or before 60 days prior to the end of the current term. Under this agreement, during the years ended June 30, 2025 and 2024, the District has either paid or accrued total base management fees of $3,176,127 and $2,834,858, respectively, which is recorded in Nursing Home expenses on the statements of revenues, expenses, and changes in net position.

NOTE 10 – QUALITY INCENTIVE PAYMENT PROGRAM

During the 84th session, the Texas Legislature directed Texas Health and Human Services Commission ("HHSC") to begin a new Quality Incentive Payment Program ("QIPP") effective September 1, 2016, and HHSC implemented QIPP on September 1, 2017. QIPP requires participating facilities meeting certain qualifying criteria to submit projects to HHSC requesting 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 will be funded through intergovernmental transfer ("IGT") payments from each participating provider. QIPP IGTs for a specific capitation rate period will be due to HHSC approximately six months prior to the beginning of the rate period. During 2025, the District transferred $4,102,117 to HHSC via an IGT for use as the state share of payments for Year 8 second period March 1, 2025, through August 31, 2025. During 2024, the District transferred $7,000,547 to HHSC via an IGT for use as the state share of payments for Year 7 second period March 1, 2024, through August 31, 2024 and Year 8 first period September 1, 2024 through February 28, 2025.

As of June 30, 2025 and 2024, the District recorded $1,367,374 and $5,065,121, respectively, in prepaid QIPP IGT. The respective prepaid QIPP IGT amounts are included in prepaids and other current assets in the accompanying statements of net position.

NOTE 10 – QUALITY INCENTIVE PAYMENT PROGRAM (CONTINUED)

Under QIPP, the District is eligible to receive quality incentive payments based on achieving certain quality metrics. During the years ended June 30, 2025 and 2024, the District recognized $10,665,810 and $6,197,101, respectively, in QIPP revenue and QIPP IGT expense of $7,574,760 and $4,844,766, respectively. Net revenue for the years ended June 30, 2025 and 2024 was $3,091,050 and $1,352,335, respectively. As of June 30, 2025 and 2024, the District recorded $5,950,910 and $2,574,975, respectively, as QIPP receivable. The laws and regulations governing QIPP 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 settlement amounts from current and prior years are recorded in the financial statements as they are determined by the District.

NOTE 11 – RELATED PARTY TRANSACTIONS

The District, from time to time, conducts business with organizations or persons that are affiliated with board members. This is often a result of a limited number of vendors in smaller communities. During June 30, 2025 and 2024, the District maintained certain funds and held debt with banks where a board member is an employee. The Board members abstain from voting on all items relating to the banks. The District has a conflict-of-interest policy and the board members have fully disclosed this relationship.

NOTE 12 – EMPLOYEE RETENTION TAX CREDIT

On March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law. It contained numerous provisions, including the Employee Retention Tax Credit ("ERTC"), which provides refundable tax credit applied to certain payroll taxes. The credit is based on wages paid to employees by employers when their business was: 1) fully or partially suspended to comply with a COVID-19 government order during 2020 or the first 3 quarters of 2021; 2) experienced a significant decline in gross receipts during 2020 or the first 3 quarters of 2021; or 3) qualified as a recovery start-up business for the third or fourth quarters of 2021. For the years ended June 30, 2025 and 2024, the District received ERTC funds in the amount of $1,446,106 and $-0-, respectively.

The District applied and received the ERTC funds based on certain hospital services being partially suspended during the first two quarters of 2021. For the years ended June 30, 2025 and 2024, the District recognized $667,639 and $-0-, respectively, of the total funds received as revenues. Due to uncertainty surrounding the rules and regulations related to the partial suspension of hospital operations, and because the ultimate resolution is subject to the expiration of applicable statutes of limitations and the possibility of an audit by the Internal Revenue Service ("IRS"), management has recorded a contingent liability in the amount of $778,467 and $-0- for the years 2025 and 2024, respectively. The respective contingent liability is recorded in other accrued liabilities in the accompanying statements of net position.

NOTE 13 – RISKS AND UNCERTAINTIES

The District is organized to serve the healthcare needs of the persons in and around Bellville, Texas, a community in a rural Texas market, and is subject to certain risks and uncertainties that may impact future financial results.

Texas Medicaid Programs – The District participates in the Texas Medicaid directed payment program, QIPP. This program is subject to quality metrics and requirements, rate-setting changes, and payment timing uncertainties. QIPP revenues comprised approximately 43.7% and 30.1% of total revenues for the years ended June 30, 2025 and 2024, respectively.

Property Tax Dependency – The District receives a portion of its funding from local ad valorem property taxes. Property tax revenue comprised approximately 30.1% and 42.3% of total revenues for the years ended June 30, 2025 and 2024, respectively.