

**HARDEMAN COUNTY HOSPITAL DISTRICT  
QUANAHA, TEXAS**

**AS OF AND FOR THE YEARS ENDED  
DECEMBER 31, 2019 AND 2018**

## INDEPENDENT AUDITOR'S REPORT

Board of Directors and Management  
Hardeman County Hospital District  
Quanah, Texas

We have audited the accompanying statements of net position of Hardeman County Hospital District (the "District"), as of and for the years ended December 31, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position and statements of cash flows, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

### Management's Responsibility for the Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hardeman County Hospital District, as of December 31, 2019 and 2018, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages A-1 through A-5 be presented to supplement the financial statements. Such information, 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.

*Durbin & Company, L.L.P.*

Durbin & Company, L.L.P.  
Lubbock, Texas  
June 23, 2020

**HARDEMAN COUNTY HOSPITAL DISTRICT  
QUANAHA, TEXAS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**AS OF AND FOR THE YEARS ENDED  
DECEMBER 31, 2019 AND 2018**

**HARDEMAN COUNTY HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2019 AND 2018  
(Unaudited)**

Our discussion and analysis of Hardeman County Hospital District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal years ended December 31, 2019 and 2018. Please read it in conjunction with the District's financial statements, which begin on page 1.

**FINANCIAL HIGHLIGHTS**

- The District's net position reflects a \$765,074, or 25.1%, increase in 2019 over 2018.
- Net patient service revenue increased \$1,036,594, or 15.3%, in 2019 over 2018.
- The District reported an operating loss of \$632,110 in 2019 and \$1,090,967 in 2018.
- Total operating expenses increased \$568,993, or 7.2%, in 2019 over 2018.

**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 A-2. 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 the District's net position and changes in them. You can think of the District's net position—the difference between assets and liabilities—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.

**HARDEMAN COUNTY HOSPITAL DISTRICT  
MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2019 AND 2018  
(Unaudited)**

**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 and liabilities reported in the Statement of Net Position on page 2. The District’s net position increased by \$765,074 and \$400,139 in 2019 and 2018, respectively, as shown in **Table 1**.

**Table 1: Assets, Liabilities, and Net Position**

	2019	2018	2017
Assets:			
Current Assets	\$ 4,464,276	\$ 3,380,791	\$ 3,012,768
Capital Assets, Net	965,082	1,066,160	1,564,114
Other Non-Current Assets	-	-	3,250
Total Assets	<u>\$ 5,429,358</u>	<u>\$ 4,446,951</u>	<u>\$ 4,580,132</u>
Liabilities:			
Long-Term Debt Outstanding	\$ 486,475	\$ 702,637	\$ 1,095,191
Other Current and Non-Current	1,131,551	698,056	838,822
Total Liabilities	<u>1,618,026</u>	<u>1,400,693</u>	<u>1,934,013</u>
Net Position:			
Net Investment in Capital Assets	478,607	363,523	468,923
Unrestricted	3,332,725	2,682,735	2,177,196
Total Net Position	<u>3,811,332</u>	<u>3,046,258</u>	<u>2,646,119</u>
Total Liabilities and Net Position	<u>\$ 5,429,358</u>	<u>\$ 4,446,951</u>	<u>\$ 4,580,132</u>

A significant component of the change in the District’s net position is due to an increase cash and cash equivalents and patients accounts receivable. The increase in cash and cash equivalents is due to increased patient utilization and related receipts and participation in the 340B drug program during FY 2019. Receipts from and on behalf of patients increased approximately \$2M and receipts from operations increased approximately \$1M in 2019. 340B drug program revenue increased approximately \$478,000 in 2019.

**OPERATING RESULTS AND CHANGES IN THE DISTRICT’S NET POSITION**

In 2019 and 2018, the District’s net position increased by \$765,074 and \$400,139, respectively.

**HARDEMAN COUNTY HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2019 AND 2018  
(Unaudited)**

**Table 2: Operating Results and Changes in Net Position**

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>OPERATING REVENUES:</b>			
Net Patient Service Revenue	\$ 7,812,253	\$ 6,775,659	\$ 6,720,546
Other Operating Revenue	50,718	59,462	34,425
Total Operating Revenues	<u>7,862,971</u>	<u>6,835,121</u>	<u>6,754,971</u>
<b>OPERATING EXPENSES:</b>			
Salaries, Wages, and Benefits	4,412,836	4,125,205	4,058,729
Other Operating Expenses	3,798,105	3,274,434	3,093,143
Depreciation and Amortization	284,140	526,449	500,956
Total Operating Expenses	<u>8,495,081</u>	<u>7,926,088</u>	<u>7,652,828</u>
Operating Loss	(632,110)	(1,090,967)	(897,857)
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Property Tax Revenue	878,061	956,141	880,243
Community Benefit Support	1,328,062	1,266,092	1,275,762
Intergovernmental Transfer Expense	(924,316)	(886,895)	(1,130,000)
Noncapital Grants and Contributions	41,783	16,869	41,474
Interest Expense	(9,173)	(14,200)	(21,920)
Other	30,791	153,099	29,486
Total Nonoperating Revenues (Expenses)	<u>1,345,208</u>	<u>1,491,106</u>	<u>1,075,045</u>
Excess of Revenues Over Expenses Before Capital Grants and Contributions	713,098	400,139	177,188
Capital Grants and Contributions	<u>51,976</u>	<u>-</u>	<u>17,663</u>
Increase in Net Position	765,074	400,139	194,851
Net Position, Beginning of Year	<u>3,046,258</u>	<u>2,646,119</u>	<u>2,451,268</u>
Net Position, End of Year	<u>\$ 3,811,332</u>	<u>\$ 3,046,258</u>	<u>\$ 2,646,119</u>

**HARDEMAN COUNTY HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2019 AND 2018  
(Unaudited)**

**Operating Loss**

The first component of the overall change in the District's net position is its operating loss - generally, the difference between net patient service revenue and the expenses incurred to perform those services. In 2019, the District reported an operating loss of \$632,110, which is a favorable decrease of \$458,857, or 42.1%, from the reported operating loss in 2018 of \$1,090,967. Changes in reimbursement rates, payment schedules and fluctuations in payments for inpatient and outpatient services, utilization by the medical staff, and other factors have impacted the operating losses from year to year.

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

- Net patient service revenue increased \$1,036,594, or 15.3%, in 2019
- Salaries and benefits expense increased \$287,631, or 7.0%, in 2019
- Professional fees and purchased services increased \$313,289, or 17.9%, in 2019
- Depreciation and amortization expense decreased \$242,309, or 46.0%, in 2019

The primary components of the increase in operating loss in 2018 are:

- Salaries and benefits expense increased \$66,476, or 1.6%, in 2018
- Supplies and other expenses increased \$181,291, or 5.9%, in 2018
- Depreciation and amortization expense increased \$25,493, or 5.1%, in 2018

**Nonoperating Revenues and Expenses**

Non-operating revenues consist primarily of property taxes levied by the District, community benefit support revenue, and non-capital grants and contributions. The District's property tax revenue decreased by \$78,080, or 8.2%, in 2019 and increased by \$75,898, or 8.6%, in 2018. Community benefit support revenue increased by \$61,970, or 4.9%, in 2019 and decreased by \$9,670, or 0.8%, in 2018.

Non-operating expenses consist primarily of intergovernmental transfer expense and interest expense. The District's intergovernmental transfer expense increased by \$37,421, or 4.2%, in 2019 and decreased by \$243,105, or 21.5%, in 2018.

**Grants and Contributions**

The District receives both operating grants from various sources for specific programs. Noncapital grants and contributions received during 2019 and 2018 were \$41,783 and \$16,869, respectively.

**THE DISTRICT'S CASH FLOWS**

Changes in the District's cash flows are consistent with changes in operating losses and non-operating revenues and expenses previously discussed.



**HARDEMAN COUNTY HOSPITAL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2019 AND 2018  
(Unaudited)**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2019 and 2018, the District had \$965,082 and \$1,066,160, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 8 of the financial statements. The District acquired capital assets in the amount of \$183,062 and \$28,495 in 2019 and 2018, respectively.

**Debt**

At the end of 2019 and 2018, the District has long-term debt outstanding of \$486,475 and \$702,637, respectively, as detailed in Note 10 of the financial statements. The District made payments totaling \$216,162 and \$392,554 in 2019 and in 2018, respectively.

**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 Hardeman County Hospital District, 402 Mercer Street, Quanah, Texas 79252.

**HARDEMAN COUNTY HOSPITAL DISTRICT  
QUANAH, TEXAS**

**FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEARS ENDED  
DECEMBER 31, 2019 AND 2018**

**HARDEMAN COUNTY HOSPITAL DISTRICT**

**STATEMENTS OF NET POSITION**

**DECEMBER 31, 2019 AND 2018**

<b>ASSETS:</b>	<u>2019</u>	<u>2018</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 2,350,708	\$ 1,434,365
Short-Term Investments	9,917	9,734
Assets Whose Use is Limited	52,509	51,703
Patients Accounts Receivable, Net of Allowances	847,547	664,039
Estimated Third-Party Payor Settlements	302,350	456,298
Inventory of Supplies	165,330	154,647
Taxes Receivable, Net of Allowance	166,082	246,182
Prepaid Expenses and Other Current Assets	<u>569,833</u>	<u>363,823</u>
Total Current Assets	4,464,276	3,380,791
<b>CAPITAL ASSETS,</b>		
Net of Accumulated Depreciation	<u>965,082</u>	<u>1,066,160</u>
Total Assets	<u><u>\$ 5,429,358</u></u>	<u><u>\$ 4,446,951</u></u>

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

**HARDEMAN COUNTY HOSPITAL DISTRICT**

**STATEMENTS OF NET POSITION**

**DECEMBER 31, 2019 AND 2018**

<b>LIABILITIES AND NET POSITION:</b>	<u>2019</u>	<u>2018</u>
<b>CURRENT LIABILITIES</b>		
Current Portion of Long-Term Debt	\$ 214,273	\$ 216,006
Accounts Payable	185,969	162,090
Accrued Salaries, Benefits and Payroll Liabilities	544,072	495,950
Other Accrued Liabilities	<u>401,510</u>	<u>40,016</u>
Total Current Liabilities	1,345,824	914,062
<b>LONG-TERM DEBT,</b>		
Net of Current Portion	<u>272,202</u>	<u>486,631</u>
Total Liabilities	1,618,026	1,400,693
<b>NET POSITION</b>		
Net Investment in Capital Assets	478,607	363,523
Unrestricted	<u>3,332,725</u>	<u>2,682,735</u>
Total Net Position	<u>3,811,332</u>	<u>3,046,258</u>
Total Liabilities and Net Position	<u><u>\$ 5,429,358</u></u>	<u><u>\$ 4,446,951</u></u>

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

**HARDEMAN COUNTY HOSPITAL DISTRICT**

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

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
<b>OPERATING REVENUES:</b>		
Net Patient Service Revenue	\$ 7,812,253	\$ 6,775,659
Other Operating Revenue	50,718	59,462
Total Operating Revenue	7,862,971	6,835,121
 <b>OPERATING EXPENSES:</b>		
Salaries and Wages	3,893,053	3,613,429
Employee Benefits	519,783	511,776
Professional Fees and Purchased Services	2,061,332	1,748,043
Supplies and Other	1,736,773	1,526,391
Depreciation and Amortization	284,140	526,449
Total Operating Expenses	8,495,081	7,926,088
 Operating Loss	(632,110)	(1,090,967)
 <b>NONOPERATING REVENUES (EXPENSES):</b>		
Property Tax Revenue	878,061	956,141
Community Benefit Support	1,328,062	1,266,092
Intergovernmental Transfer Expense	(924,316)	(886,895)
Noncapital Grants and Contributions	41,783	16,869
Interest Income	11,192	9,011
Interest Expense	(9,173)	(14,200)
Other Nonoperating Revenue	19,599	144,088
Total Nonoperating Revenues (Expenses)	1,345,208	1,491,106
 Excess of Revenues Over Expenses Before Capital Grants and Contributions	713,098	400,139
 Capital Grants and Contributions	51,976	-
 Increase in Net Position	765,074	400,139
 Net Position, Beginning of the Year	3,046,258	2,646,119
 Net Position, End of Year	\$ 3,811,332	\$ 3,046,258

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

# HARDEMAN COUNTY HOSPITAL DISTRICT

## STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts From and on Behalf of Patients	\$ 8,126,595	\$ 6,176,239
Other Receipts and Payments, Net	(140,877)	82,852
Payments to Suppliers and Contractors	(2,453,136)	(2,016,522)
Payments to Employees	(4,364,714)	(4,137,036)
Net Cash Provided by Operating Activities	<u>1,167,868</u>	<u>105,533</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment Earnings	11,192	9,011
Purchase of Investments	(181)	(122)
Proceeds From Sale of Investments	-	2,712
Net Cash Provided by Investing Activities	<u>11,011</u>	<u>11,601</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital Grants and Contributions	51,976	127,420
Principal Payments on Long-Term Debt and Notes Payable	(216,162)	(392,554)
Interest Payments on Long-Term Debt and Notes Payable	(9,707)	(11,145)
Purchase of Capital Assets	(183,062)	(28,495)
Net Cash Used by Capital and Related Financing Activities	<u>(356,955)</u>	<u>(304,774)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Property Taxes	958,161	913,954
Noncapital Grants and Contributions	41,783	16,869
Payments for Intergovernmental Transfers	(924,316)	(886,895)
Tobacco Proceeds	19,599	16,668
Net Cash Provided by Noncapital Financing Activities	<u>95,227</u>	<u>60,596</u>
 Net Increase (Decrease) in Cash and Cash Equivalents	 917,151	 (127,044)
Cash and Cash Equivalents, Beginning of Year	<u>1,470,173</u>	<u>1,597,217</u>
Cash and Cash Equivalents, End of Year	<u>\$ 2,387,324</u>	<u>\$ 1,470,173</u>

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

**HARDEMAN COUNTY HOSPITAL DISTRICT**

**STATEMENTS OF CASH FLOWS (CONTINUED)**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION:		
Cash and Cash Equivalents Presented Under the Following Titles:		
Cash and Cash Equivalents	\$ 2,350,708	\$ 1,434,365
Assets Whose Use is Limited - Current	36,616	35,808
Total Cash and Cash Equivalents	\$ 2,387,324	\$ 1,470,173
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Loss	\$ (632,110)	\$ (1,090,967)
Adjustments to Reconcile Operating Loss to Net Cash Flows		
Provided by Operating Activities:		
Depreciation and Amortization	284,140	526,449
Provision for Bad Debts	897,098	916,121
Indigent Care Support	1,328,062	1,266,092
(Increase) Decrease in:		
Accounts Receivable, Net of Allowances	(1,080,606)	(824,620)
Estimated Third-Party Payor Settlements	153,948	(297,179)
Inventory of Supplies	(10,683)	(15,501)
Prepaid Expenses and Other Current Assets	(206,010)	(234,291)
Increase (Decrease) in:		
Accounts Payable	23,879	(26,001)
Estimated Third-Party Payor Settlements	-	(63,457)
Accrued Salaries, Benefits and Payroll Liabilities	48,122	(11,831)
Other Accrued Liabilities	362,028	(39,282)
Net Cash Provided by Operating Activities	\$ 1,167,868	\$ 105,533

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

**HARDEMAN COUNTY HOSPITAL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** - Hardeman County Hospital District (the “District”), an acute care hospital located in Quanah, Texas, is a political subdivision created and operating under the laws of the State of Texas. The District is governed by a seven-member 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 Quanah, Texas.

Hardeman County Memorial Hospital Foundation, Inc. (“Foundation”) is a Texas 501(c)(3) not-for-profit health organization established to support the mission and purpose of the District shall be composed of a Board of Directors selected from Hardeman County, Texas and was established to support the mission and purpose of the District. The Foundation is a separate, legal entity but is financially integrated with the District and is reported as a blended component unit of the District.

**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 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 Pronouncements*. The District 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*.

**Use of Estimates** - The preparation of the 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 end 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 District considers highly liquid investments with an original maturity of three months or less to be cash equivalents, excluding amounts whose use is limited by board designation or other arrangements under trust agreements or with third-party payors.

**Assets Whose Use is Limited** - Assets whose use is limited include assets set aside by the board of directors to be used for capital expenditures over which the board retains control and may at its discretion subsequently use for other purposes.

**Short-Term Investments** – The District’s investments consist of certificates of deposits which are reported at fair value and mature within the next fiscal year.



**HARDEMAN COUNTY HOSPITAL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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, and 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.

**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 provides 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. 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 District has elected to capitalize expenditures over \$5,000 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	15 to 20 years
Building (Components)	5 to 50 years
Fixed Equipment	7 to 25 years
Major Moveable Equipment	3 to 20 years

**Net Position** – Net position of the District is classified in two components: net investment in capital assets 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. Unrestricted net position is the remaining assets less remaining liabilities that do not meet the definition of net investment in capital assets, net of related debt or restricted expendable.

**HARDEMAN COUNTY HOSPITAL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Operating Revenues and Expenses** – For purposes of display, the District’s statements 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 District’s principal activity. Non-exchange revenues, including taxes, grants and contributions, and intergovernmental transfers 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 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.

The Foundation is a not-for-profit corporation and is qualified as a tax-exempt organization; therefore, no expense has been provided for income taxes in the accompanying financial statements. The Foundation is required to file the IRS form 990.

**Charity Care** – The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Management’s policy for the provision of charity care is to request proof of income and personal property values, proof of Hardeman County, Texas residency, number of household members, other benefits received, and other pertinent information. The District applies Federal Poverty Guidelines to determine patient eligibility and performs an application review every six months after approval. Because the District does not pursue the collection of amounts determined to qualify as charity care, charity care is excluded from net patient revenue.

**Property Taxes** –The District levies taxes as provided under state law on properties within the District. These taxes are collected by the Hardeman 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 prior to January 1, which is the due date a lien attaches to the taxable property. Property tax revenues are recognized when they become available. Allowances are provided for delinquent taxes.

**Grants and Contributions** - From time to time, the District receives grants from the state as well as 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.

**HARDEMAN COUNTY HOSPITAL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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; employee injuries and illnesses; natural disaster; and employee health, dental, and accidental benefits. Commercial insurance coverage is purchased for claims arising from such matters.

**Newly Adopted Accounting Pronouncements:**

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

**GASB Statement No. 90** – In August 2018, GASB issued GASB Statement No. 90 – *Major Equity Interests*. The objective of this Statement is to improve the consistency and comparability of reporting a government’s majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government’s holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity method, unless it is held by a special-purpose government engaged only in fiduciary activities, a fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The Statement is effective for reporting periods beginning after December 15, 2018. The implementation of this statement had no effect on the change in net position.

**Pending Adoption of Recent Accounting Pronouncements:**

**GASB Statement No. 87** – In June 2017, GASB issued GASB Statement No. 87 – *Leases*. The objective of this Statement is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as deferred outflows of resources or deferred inflows of resources based on the payment provisions of the contract. The Statement is effective for reporting periods beginning after December 15, 2019. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

**HARDEMAN COUNTY HOSPITAL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Pending Adoption of Recent Accounting Pronouncements (Continued):**

**GASB Statement No. 89** – In June 2018, GASB issued GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. The Statement is effective for reporting periods beginning after December 15, 2019. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

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

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

The requirements of this Statement are effective as follows:

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

**HARDEMAN COUNTY HOSPITAL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Pending Adoption of Recent Accounting Pronouncements (Continued):**

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

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

**GASB Statement No. 95** – In May 2020, the Governmental Accounting Standards Board (“GASB”) issued GASB Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stake holders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are schedule to become effective for periods beginning after June 15, 2018, or later.

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

**NOTE 2 - NET PATIENT SERVICE REVENUE**

The District has agreements with third-party payors that provide for 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 revenue adjustments and a provision for uncollectible accounts. A summary of the payment arrangements with major third-party payors follows:

**Medicare and Medicaid** – The District is a Critical Access Hospital (CAH). Inpatient acute care services, certain inpatient non-acute care services, and outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The District is reimbursed for cost reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary.

**Other** - The District 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.

**HARDEMAN COUNTY HOSPITAL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

**NOTE 2 - NET PATIENT SERVICE REVENUE (CONTINUED)**

**Charity Care** - The value of charity care provided by the District based upon its established rates, was \$476,766 in 2019 and \$496,848 in 2018. ASU 2010-23 requires charity care to be disclosed on a cost basis. The District utilizes the cost to charge ratios, as calculated based on its most recent cost reports, to determine the total cost. The District's cost of providing charity care was estimated at \$375,554 and \$394,643 for the years ended December 31, 2019 and 2018, respectively.

**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' cost reports are recorded in the financial statements as they are determined by the District. Estimated third-party payor settlements recorded in current assets (liabilities) at December 31, 2019 and 2018 are \$302,350 and \$456,298, respectively.

Net patient service revenue is comprised as follows:

	<u>2019</u>	<u>2018</u>
Routine Patient Services	\$ 757,298	\$ 414,750
Ancillary Patient Services		
Inpatient	863,854	740,022
Outpatient	<u>9,921,594</u>	<u>9,092,781</u>
Gross Patient Service Revenue	11,542,746	10,247,553
Charity	(476,766)	(496,848)
Third-Party Contractual Adjustments	(2,484,372)	(2,485,527)
Provision for Bad Debts	(897,098)	(916,121)
Medicaid Supplemental Payments and Other Credits	<u>127,743</u>	<u>426,602</u>
Net Patient Service Revenue	<u>\$ 7,812,253</u>	<u>\$ 6,775,659</u>

**NOTE 3 – SHORT-TERM INVESTMENTS**

The District's short-term investments are reported at fair value, and consist of money market accounts and certificates of deposit. The certificates of deposit mature within the next fiscal year.

**HARDEMAN COUNTY HOSPITAL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

**NOTE 4 - DEPOSITS WITH FINANCIAL INSTITUTIONS**

At December 31, 2019 and 2018, the carrying amount of the District's deposits with financial institutions was \$2,413,134 and \$1,495,272, and the bank balance was \$2,507,570 and \$1,570,821, respectively. The bank balances are categorized as follows:

	<u>2019</u>	<u>2018</u>
Amount Insured by the FDIC	\$ 259,917	\$ 264,513
Amount Collateralized with Securities Held by the Pledging Financial Institution in the District's Name	<u>2,247,653</u>	<u>1,306,308</u>
Total Bank Balance	<u>\$ 2,507,570</u>	<u>\$ 1,570,821</u>
Carrying Value	<u>\$ 2,413,134</u>	<u>\$ 1,495,272</u>

**NOTE 5 – ASSETS WHOSE USE IS LIMITED**

The components of assets whose use is limited are set forth in the following table:

	<u>2019</u>	<u>2018</u>
<b>Assets Limited as to use - Current</b>		
Internally Designated for Capital Equipment:		
Certificates of Deposit - Short Term	\$ 15,893	\$ 15,895
Internally Designated for Debt Service:		
Cash & Equivalents	<u>36,616</u>	<u>35,808</u>
Total Assets Whose Use is Limited - Current	<u>\$ 52,509</u>	<u>\$ 51,703</u>

**NOTE 6 – PATIENT ACCOUNTS RECEIVABLE**

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Accounts receivable consist of the following at December 31, 2019 and 2018:

	<u>2019</u>	<u>2018</u>
Gross Accounts Receivable	\$ 2,142,791	\$ 1,750,639
Less: Allowance for Bad Debts	(525,282)	(518,945)
Allowance for Contractual Adjustments	<u>(769,962)</u>	<u>(567,655)</u>
Accounts Receivable, Net of Allowances	<u>\$ 847,547</u>	<u>\$ 664,039</u>

**HARDEMAN COUNTY HOSPITAL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

**NOTE 6 – PATIENT ACCOUNTS RECEIVABLE (CONTINUED)**

**Concentration of Credit Risk** - The District 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 December 31, 2019 and 2018 is as follows:

	<u>2019</u>	<u>2018</u>
Medicare	23%	23%
Medicaid	3%	9%
Other Third-Party Payors	33%	28%
Patients	<u>41%</u>	<u>40%</u>
Total	<u><u>100%</u></u>	<u><u>100%</u></u>

**NOTE 7 – 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. Taxes are reported as revenues in the period for which they are levied. Tax revenue net of related expenses for 2019 and 2018 was \$878,061 and \$956,141, respectively. At December 31, 2019 and 2018, the balance of property taxes receivable and its related allowance for uncollectible taxes are as follows:

	<u>2019</u>	<u>2018</u>
Property Taxes Receivable	\$ 283,303	\$ 371,681
Allowance for Uncollectable Taxes	<u>(117,221)</u>	<u>(125,499)</u>
Net Taxes Receivable	<u><u>\$ 166,082</u></u>	<u><u>\$ 246,182</u></u>



**HARDEMAN COUNTY HOSPITAL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

**NOTE 8 – CAPITAL ASSETS**

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

	Balance 12/31/2018	Additions	Transfers/ Retirements	Balance 12/31/2019
Capital Assets Not Being Depreciated:				
Land	\$ 71,696	\$ -	\$ -	\$ 71,696
Construction in Progress	6,599	1,764	(6,599)	1,764
Total Capital Assets Not Being Depreciated	78,295	1,764	(6,599)	73,460
Capital Assets Being Depreciated:				
Buildings and Improvements	3,003,735	22,763	(11,875)	3,014,623
Equipment	3,633,354	158,535	(35,946)	3,755,943
Capital Leased Assets	321,350	-		321,350
Total Capital Assets Being Depreciated	6,958,439	181,298	(47,821)	7,091,916
Less: Accumulated Depreciation for:				
Building and Improvements	(2,535,942)	(76,275)	11,875	(2,600,342)
Equipment	(3,229,556)	(145,150)	42,545	(3,332,161)
Capital Leased Assets	(205,076)	(62,715)	-	(267,791)
Total Accumulated Depreciation	(5,970,574)	(284,140)	54,420	(6,200,294)
Total Capital Assets Being Depreciated, Net	987,865	(102,842)	6,599	891,622
Total Capital Assets, Net	<u>\$ 1,066,160</u>	<u>\$ (101,078)</u>	<u>\$ -</u>	<u>\$ 965,082</u>

**HARDEMAN COUNTY HOSPITAL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

**NOTE 8 – CAPITAL ASSETS (CONTINUED)**

	Balance 12/31/2017	Additions	Transfers/ Retirements	Balance 12/31/2018
Capital Assets Not Being Depreciated:				
Land	\$ 71,696	\$ -	\$ -	\$ 71,696
Construction in Progress	-	6,599	-	6,599
Total Capital Assets Not Being Depreciated	71,696	6,599	-	78,295
Capital Assets Being Depreciated:				
Building and Improvements	2,992,234	13,726	(2,225)	3,003,735
Equipment	3,625,184	8,170	-	3,633,354
Capital Leased Assets	321,350	-	-	321,350
Total Capital Assets Being Depreciated	6,938,768	21,896	(2,225)	6,958,439
Less: Accumulated Depreciation for:				
Building and Improvements	(2,459,691)	(78,476)	2,225	(2,535,942)
Equipment	(2,847,407)	(382,149)	-	(3,229,556)
Capital Leased Assets	(139,252)	(65,824)	-	(205,076)
Total Accumulated Depreciation	(5,446,350)	(526,449)	2,225	(5,970,574)
Total Capital Assets Being Depreciated, Net	1,492,418	(504,553)	-	987,865
Capital Assets, Net	<u>\$ 1,564,114</u>	<u>\$ (497,954)</u>	<u>\$ -</u>	<u>\$ 1,066,160</u>

Depreciation expense for the years ended December 31, 2019 and 2018 totaled \$284,140 and \$526,449, respectively.

**NOTE 9 – LONG-TERM ASSETS HELD FOR SALE**

A summary of the land held for sale for the year ending December 31, 2019 and 2018 follows:

	Balance 12/31/2017	Additions	Reductions	Balance 12/31/2018
Capital Assets Held for Sale:				
Land	<u>\$ 3,250</u>	<u>\$ -</u>	<u>\$ (3,250)</u>	<u>\$ -</u>

**HARDEMAN COUNTY HOSPITAL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

**NOTE 10 – LONG-TERM DEBT**

Following is a summary of long-term debt at December 31, 2019 and 2018:

	<u>Balance</u> <u>12/31/2018</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2019</u>	<u>Due Within</u> <u>One Year</u>
Notes Payable:					
Note Payable #2	\$ 127,788	\$ -	\$ (40,772)	\$ 87,016	\$ 42,410
Note Payable #3	33,329	-	(13,323)	20,006	13,985
Note Payable #4	414,319	-	(96,372)	317,947	96,372
Total Notes Payable	<u>575,436</u>	<u>-</u>	<u>(150,467)</u>	<u>424,969</u>	<u>152,767</u>
Capital Lease Obligations:					
Capital Lease #1	127,201	-	(65,695)	61,506	61,506
Total Long-Term Debt	<u>\$ 702,637</u>	<u>\$ -</u>	<u>\$ (216,162)</u>	<u>\$ 486,475</u>	<u>\$ 214,273</u>
	<u>Balance</u> <u>12/31/2017</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2018</u>	<u>Due Within</u> <u>One Year</u>
Notes Payable:					
Note Payable #1	\$ 177,420	\$ -	\$ (177,420)	\$ -	\$ -
Note Payable #2	166,803	-	(39,015)	127,788	40,547
Note Payable #3	46,014	-	(12,685)	33,329	13,337
Note Payable #4	513,491	-	(99,172)	414,319	96,372
Total Notes Payable	<u>903,728</u>	<u>-</u>	<u>(328,292)</u>	<u>575,436</u>	<u>150,256</u>
Capital Lease Obligations:					
Capital Lease #1	191,463	-	(64,262)	127,201	65,750
Total Long-Term Debt	<u>\$ 1,095,191</u>	<u>\$ -</u>	<u>\$ (392,554)</u>	<u>\$ 702,637</u>	<u>\$ 216,006</u>

The terms and due dates of the District's long-term debt at December 31, 2019 and 2018 is as follows:

- Note Payable #1 - note payable to CSS, settled with CSS for \$50,000 in February 2018.
- Note Payable #2 – note payable to Texas Republic Bank, bearing interest at 4.25%, due in 72 monthly installments of \$3,789, collateralized by equipment, matures on December 15, 2021.
- Note Payable #3 – note payable to American National Bank & Trust, bearing interest at 4.75%, due in 60 monthly installments of \$1,219, collateralized by equipment, and matures on May 15, 2021.
- Note Payable #4 – note payable to CPSI, bearing no interest, due in 84 monthly installments of \$8,031, collateralized by equipment, and matures on January 1, 2023.
- Capital Lease #1 – capital lease obligation bearing interest at 2.15%, due in 60 monthly installments of \$7,014, collateralized by equipment, and matures March 2019.

**HARDEMAN COUNTY HOSPITAL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

**NOTE 10 – LONG-TERM DEBT (CONTINUED)**

Following is a schedule of maturities for long-term debt for each of the next five years.

For the Year Ending December 31,	Long-Term Debt			Capital Lease Obligations	
	Principal	Interest	Total	Principal	Interest
2020	\$ 152,767	\$ 3,703	\$ 156,470	\$ 61,506	\$ 662
2021	146,999	1,181	148,180	-	-
2022	96,372	-	96,372	-	-
2023	28,831	-	28,831	-	-
Total	<u>\$ 424,969</u>	<u>\$ 4,884</u>	<u>\$ 429,853</u>	<u>\$ 61,506</u>	<u>\$ 662</u>

The amount of interest cost incurred in 2019 and 2018 was \$9,173 and \$14,200, respectively, all of which was charged to operations.

**NOTE 11 – MEDICAID DISPROPORTIONATE SHARE**

The Indigent Health Care and Treatment Act, passed by the 69<sup>th</sup> 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 governmental transfers were made between selected district and county 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 indirect implied expectations regarding purposes of this funding. The focus of the funds is to benefit the health care needs of the medically indigent, including recipients 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 funds. In connection with this program, the District provided intergovernmental transfers of \$93,762 and \$94,549 and received \$227,001 and \$221,274 for the years ended December 31, 2019 and 2018, respectively. The District recognized revenue of \$133,239 and \$126,725 for the years ended December 31, 2019 and 2018, respectively. The respective net revenue is included in net patient service revenue in the accompanying statements of revenues, expenses, and changes in net position.

**HARDEMAN COUNTY HOSPITAL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

**NOTE 12 – SECTION 1115 DEMONSTRATION WAIVER PROGRAM**

**Uncompensated Care** - The District participated in the Section 1115 Demonstration Waiver Program, a program designed to benefit rural community hospitals. This program is facilitated through the District providing an intergovernmental transfer whereby federal matching funds are provided to supplement the District for the shortfall in Medicaid funding. In connection with this program, the District provided intergovernmental transfers of \$248,965 and \$227,333 and received \$595,469 and \$527,210 for the years ended December 31, 2019 and 2018, respectively. The District recognized revenue of \$346,504 and \$299,877 for the years ended December 31, 2019 and 2018, respectively. The respective net revenue is included in net patient service revenue in the accompanying statements of revenues, expenses, and changes in net position.

**Indigent Care Affiliation Agreement** – Under the Section 1115 Demonstration Waiver Program, the District is part of an indigent care affiliation agreement with the Service Organization of North 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. Under this program, the District transfers certain governmental funds to the State of Texas. The Service Organization of North Texas then provides care to the Medicaid and non-Medicaid indigent in the region and surrounding communities. These services were valued at \$1,328,062 and \$1,266,092 as of December 31, 2019 and 2018, respectively. As part of the affiliation agreement, the District provided \$924,316 and \$886,895 in funding to the program for the years ended December 31, 2019 and 2018, respectively. Additionally, at December 31, 2019 and 2018, the District recorded \$307,790 and \$288,105, respectively, in prepaid intergovernmental transfer expense. The prepaid intergovernmental transfer expense is included in prepaid expenses and other current assets in the accompanying statements of net position.

**NOTE 13 – 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 2019 and 2018, the District maintained certain funds and held debt with a bank where a board member is an employee. The Board member abstains from voting on all items relating to the bank. The District has a conflict of interest policy and the board member has fully disclosed this relationship.

**NOTE 14 – PENSION PLAN**

**Retirement Plan** – On August 1, 1986, the District Board of Directors adopted the defined contribution deferred compensation plan and is designed to comply with Section 457(b). It has been amended and restated effective January 1, 2009. The Plan covers substantially all employees who complete 1,000 hours of service during twelve consecutive months of employment. The funding rate of District contributions to the Plan is 4% of employee compensation. A participant becomes 33% vested in the District's contributions after one year, and an additional 33% vesting occurs each year thereafter until 100% vested three years. The employee contributions to the plan during the years ended December 31, 2019 and 2018 were \$77,978 and \$60,502, respectively. Employer contributions to the plan were \$-0- for both years ended December 31, 2019 and 2018.

**HARDEMAN COUNTY HOSPITAL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

**NOTE 15 - COMMITMENTS AND CONTINGENCIES**

**Operating Leases** - Rental expense for all operating leases was \$22,469 and \$21,237 during 2019 and 2018, respectively.

**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.

In December 2015, the District notified CSS Technologies, Inc. (CSS) it was terminating its agreement for the purchase and installation of electronic medical records software. As a result, CSS filed suit against the District for breach of contract, including the District not paying the full agreed upon purchase price of the software. At December 31, 2017, the remaining balance owed to CSS was \$177,420, which is included in long-term debt in the accompanying statements of net position. The District alleges CSS did not provide services in accordance with the purchase agreement and has withheld further payments. In February 2018, the District and CSS agreed to a settlement of \$50,000. The settlement was paid in February 2018. In accordance with the settlement, CSS released the District from the contract and from further performance.

**Texas Medicaid 1115 Healthcare Transformation Waiver Recoupment Liability** – During 2017, several hospitals filed a lawsuit against the federal government challenging the rule calculating disproportionate share (DSH) and uncompensated care (UC) payments. The hospitals claimed the rule’s definition of “costs incurred” was contrary to the Medicaid Act. The main issue is whether payments made by Medicare and private insurers should be subtracted from a hospital’s “costs incurred” in the calculation of the Medicaid Hospital Specific Limit (HSL). In August 2019, the D.C. Circuit reinstated the 2017 Final Rule as adopted by the Centers for Medicare and Medicaid Services. As a result, the HSL was subsequently recalculated, resulting in numerous hospitals receiving DSH and UC funds in excess of the calculated limit during demonstration years 7 and 8. Consequently, management has recorded an estimate for the anticipated recoupment of DSH and UC funds at December 31, 2019. At December 31, 2019, management recorded an estimated recoupment liability of \$352,000. The recoupment liability is included in other accrued liabilities in the accompanying statements of net position.

**NOTE 16 – 340B DRUG PROGRAM**

The District participates in the 340B “Drug Discount Program” which enables qualifying healthcare providers to purchase drugs from pharmaceutical suppliers at a substantial discount. Pharmacy revenue is recognized as pharmaceuticals are dispensed. The 340B Drug Pricing Program is managed by the Health Resources and Services Administration (HRSA) Office of Pharmacy Affairs. The District earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. The District has a network of participating pharmacies that dispense the pharmaceuticals to its patients under a contract arrangement with the District.

**HARDEMAN COUNTY HOSPITAL DISTRICT  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

**NOTE 16 – 340B DRUG PROGRAM (CONTINUED)**

Reported 340B revenue for the year ended December 31, 2019 and 2018 of \$477,690 and \$-0-, respectively, consists of reimbursements from the network of participating pharmacies, net of the initial purchase price of the drugs and is included in net patient service revenue in the accompanying statements of revenues, expenses, and changes in net position. At December 31, 2019 and 2018, the District recorded a 340B drug program receivable of \$190,036 and \$-0-, respectively. The receivable is included in prepaid expenses and other current assets in the accompanying statements of net position.

**NOTE 17 – SUBSEQUENT EVENTS**

Subsequent to year-end, the World Health Organization declared the 2019-20 coronavirus (“COVID19”) a pandemic. As a result, the Federal government declared a nationwide emergency. Under the Executive Order, policies and procedures were implemented to slow the spread of COVID-19 and provide beds for providing treatment for COVID-19-infected patients. The Executive Order mandated the postponement of certain medical procedures and services, including elective surgeries and related appointments. A significant portion of the Hospital’s revenues are derived from elective surgeries and appointments. The postponement of these procedures could have a negative impact on the Hospital’s revenues and cash flows.

The District has benefited from funds related to the Covid-19 pandemic:

- \$3.36M in CARES “grants” that are essentially revenue
- \$821.9K in “loan” proceeds for the SBA/PPP program that should result in loan ‘forgiveness’
- \$1.34M in “Advances” from the CMS Accelerated Payment program. While these funds will need to be paid back starting in August, they give the District an infusion of cash now
- \$84.32K in SHIP “funds” that are essentially revenue
- \$12K in THIE additional “surplus” that are essentially revenue

The date to which events occurring after December 31, 2019, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosure is June 23, 2020, which is the date on which the financial statements were available to be issued.

**SUPPLEMENTARY INFORMATION**



**INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION**

Board of Directors and Management  
Hardeman County Hospital District  
Quanah, Texas

We have audited the financial statements of Hardeman County Hospital District as of and for the years ended December 31, 2019 and 2018, and our report thereon dated June 23, 2020, which expressed an unmodified opinion on those financial statements, appears at the beginning of this report. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The other financial information on pages 20 through 23 is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Durbin & Company, L.L.P.*

Durbin & Company, L.L.P.  
Lubbock, Texas  
June 23, 2020

**HARDEMAN COUNTY HOSPITAL DISTRICT  
NET PATIENT SERVICE REVENUE  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Routine Services:		
Routine Services	\$ 757,298	\$ 414,750
Ancillary and Other Services		
Inpatient:		
Radiology and Nuclear Medicine	48,970	55,180
Laboratory	134,719	129,502
Respiratory Therapy	111,566	41,649
Physical Therapy	147,554	110,617
Speech Therapy	24,499	9,149
Electrocardiology	2,000	2,720
Central Supply	15,264	12,828
Pharmacy	376,542	375,645
Emergency	1,935	905
Observation	805	1,827
Total Inpatient Ancillary Services	<u>863,854</u>	<u>740,022</u>
Outpatient:		
Radiology and Nuclear Medicine	1,316,741	1,106,977
Laboratory	1,607,124	1,612,262
Respiratory Therapy	90,764	34,298
Physical Therapy	1,278,096	1,321,079
Speech Therapy	206,361	134,232
Electrocardiology	51,280	50,480
Central Supply	52,991	59,177
Pharmacy	795,645	653,642
Geri-Psych	1,506,597	1,504,095
Foard County Rural Health Clinic	274,978	279,808
Hardeman County Rural Health Clinic	1,092,033	1,184,222
Emergency Room	1,113,355	1,065,766
Observation	57,939	86,743
340B Revenue	477,690	-
Total Outpatient Ancillary Services	<u>9,921,594</u>	<u>9,092,781</u>
Gross Patient Revenue	<u>\$ 11,542,746</u>	<u>\$ 10,247,553</u>

See independent auditor's report on other financial information

**HARDEMAN COUNTY HOSPITAL DISTRICT  
NET PATIENT SERVICE REVENUE AND OTHER OPERATING REVENUE  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Gross Patient Revenue	\$ 11,542,746	\$ 10,247,553
Deductions from Revenue:		
Charity	(476,766)	(496,848)
Third-Party Contractual Adjustments	(2,484,372)	(2,485,527)
Provision for Bad Debts	(897,098)	(916,121)
Medicaid Supplemental Payments and Other Credits	<u>127,743</u>	<u>426,602</u>
Total Deductions from Revenue	<u>(3,730,493)</u>	<u>(3,471,894)</u>
Net Patient Service Revenue	7,812,253	6,775,659
Other Operating Revenue:		
Medical Records	1,761	1,800
Foard County Subsidy	3	165
Miscellaneous	<u>48,954</u>	<u>57,497</u>
Total Other Operating Revenue	<u>50,718</u>	<u>59,462</u>
Total Operating Revenue	<u><u>\$ 7,862,971</u></u>	<u><u>\$ 6,835,121</u></u>

See independent auditor's report on other financial information

**HARDEMAN COUNTY HOSPITAL DISTRICT  
OPERATING EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Routine Services	\$ 1,153,399	\$ 1,016,658
Ancillary Services:		
Radiology and Nuclear Medicine	318,581	268,662
Laboratory	561,616	547,686
Respiratory Therapy	22,200	22,796
Physical therapy	751,305	678,571
Speech Therapy	85,407	80,756
Central Supply	101,664	97,476
Pharmacy	757,211	341,311
Geri Psych	445,893	437,579
Foard County Rural Health Clinic	181,463	187,089
Hardeman County Rural Health Clinic	1,086,607	1,015,673
Emergency	610,975	603,013
Ambulance	5,657	6,735
Total Ancillary Services	<u>4,928,579</u>	<u>4,287,347</u>
General Services:		
Operation and Plant	219,452	199,217
Laundry and Linen	15,388	11,937
Housekeeping	72,859	70,139
Dietary	149,804	125,341
Total General Services	<u>\$ 457,503</u>	<u>\$ 406,634</u>

See independent auditor's report on other financial information

**HARDEMAN COUNTY HOSPITAL DISTRICT  
 OPERATING EXPENSES (CONTINUED)  
 FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
Administrative Services:		
Salaries and Wages	\$ 448,470	\$ 476,854
Other Operating	68,655	51,489
Employee Benefits	520,709	512,112
Supplies	24,803	14,312
Medical Records	100,893	90,273
Rental Expense	4,727	3,920
Contracted and Purchased Services	81,143	76,311
Travel and Education	7,286	4,562
Insurance	83,654	70,732
Legal and Accounting Fees	62,165	64,686
Utilities	18,173	50,599
Advertising	1,869	2,318
Physician Recruitment	62	66,398
Repairs and Maintenance	218,537	187,341
Dues and Subscriptions	3,851	2,863
Collection Fees	8,794	4,126
Miscellaneous	17,669	10,104
Total Administrative Services	<u>1,671,460</u>	<u>1,689,000</u>
Depreciation	<u>284,140</u>	<u>526,449</u>
Total Operating Expenses	<u><u>\$ 8,495,081</u></u>	<u><u>\$ 7,926,088</u></u>

See independent auditor's report on other financial information