HARDEMAN COUNTY HOSPITAL DISTRICT
QUANAH, TEXAS

AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2020 AND 2019

DURBIN&CO LLP
Certified Public Accountants

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, 2020 and 2019, 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 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, 2020 and 2019, 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
November 15, 2021

HARDEMAN COUNTY HOSPITAL DISTRICT
QUANAH, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2020 AND 2019

HARDEMAN COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2020 AND 2019
(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, 2020 and 2019. 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 $3,922,872, or 102.9%, increase in 2020 over 2019.
- Net patient service revenue increased $773,384, or 9.9%, in 2020 over 2019.
- The District reported an operating loss of $1,271,941 in 2020 and $632,110 in 2019.
- Total operating expenses increased $1,403,500, or 16.5%, in 2020 over 2019.

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, 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 access 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 and liabilities reported in the Statement of Net Position on page 1. The District's net position increased by $3,922,872 and $765,074 in 2020 and 2019, respectively, as shown in **Table 1**.

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

	2020	2019	2018
Assets:			
Current Assets	$ 10,242,639	$ 4,464,276	$ 3,380,791
Capital Assets, Net	936,519	965,082	1,066,160
Total Assets	$ 11,179,158	$ 5,429,358	$ 4,446,951
Liabilities:			
Long-Term Debt Outstanding	$ 234,835	$ 486,475	$ 702,637
Other Current and Non-Current	2,032,988	1,131,551	698,056
Total Liabilities	2,267,823	1,618,026	1,400,693
Deferred Inflows of Resources	1,177,131	-	-
Net Position:			
Net Investment in Capital Assets	701,684	478,607	363,523
Unrestricted	7,032,520	3,332,725	2,682,735
Total Net Position	7,734,204	3,811,332	3,046,258
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 11,179,158	$ 5,429,358	$ 4,446,951

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 receipt of CARES Act Provider Relief Funds and Medicare Advance Payments of approximately $3.4M and $1.2M in 2020 and 2019, respectively. A significant amount of these receipts were not expended at year end.

OPERATING RESULTS AND CHANGES IN THE DISTRICT'S NET POSITION

In 2020 and 2019, the District's net position increased by $3,922,872 and $765,074, respectively.

Table 2: Operating Results and Changes in Net Position

	2020	2019	2018
OPERATING REVENUES:			
Net Patient Service Revenue	$ 8,585,637	$ 7,812,253	$ 6,775,659
Other Operating Revenue	41,003	50,718	59,462
Total Operating Revenues	8,626,640	7,862,971	6,835,121
OPERATING EXPENSES:			
Salaries, Wages, and Benefits	4,976,715	4,412,836	4,125,205
Other Operating Expenses	4,650,177	3,798,105	3,274,434
Depreciation and Amortization	271,689	284,140	526,449
Total Operating Expenses	9,898,581	8,495,081	7,926,088
Operating Loss	(1,271,941)	(632,110)	(1,090,967)
NONOPERATING REVENUES (EXPENSES):			
Property Tax Revenue	1,209,517	878,061	956,141
Community Benefit Support	1,347,549	1,328,062	1,266,092
Intergovernmental Transfer Expense	(1,028,790)	(924,316)	(886,895)
Noncapital Grants and Contributions	135,222	41,783	16,869
Interest Expense	(12,054)	(9,173)	(14,200)
CARES ACT Provider Relief Funds	3,364,767	-	-
Other	157,849	19,599	144,088
Total Nonoperating Revenues (Expenses)	5,187,586	1,345,208	1,491,106
Excess of Revenues Over Expenses Before Capital Grants and Contributions	3,915,645	713,098	400,139
Capital Grants and Contributions	7,227	51,976	-
Increase in Net Position	3,922,872	765,074	400,139
Net Position, Beginning of Year	3,811,332	3,046,258	2,646,119
Net Position, End of Year	$ 7,734,204	$ 3,811,332	$ 3,046,258

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 2020, the District reported an operating loss of $1,271,941, which is a unfavorable increase of $639,831, or 101.2%, from the reported operating loss in 2019 of $632,110. 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 increase in operating loss in 2020 are:

- Net patient service revenue increased $773,384, or 9.9%, in 2020
- Salaries and benefits expense increased $563,879, or 12.8%, in 2020
- Professional fees and purchased services increased $438,024, or 21.2%, in 2020

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

Nonoperating Revenues and Expenses

Non-operating revenues consist primarily of property taxes levied by the District, community benefit support revenue, non-capital grants and contributions, and CARES Act Provider Relief Funds. The District's property tax revenue increased by $331,456, or 37.7%, in 2020 and decreased by $78,080, or 8.2%, in 2019. Community benefit support revenue increased by $19,487, or 1.5%, in 2020 and increased by $61,970, or 4.9%, in 2019. During 2020, the District recognized $3,364,767 in Provider Relief Fund revenue.

Non-operating expenses consist primarily of intergovernmental transfer expense and interest expense. The District's intergovernmental transfer expense increased by $104,474, or 11.3%, in 2020 and increased by $37,421, or 4.2%, in 2019.

Grants and Contributions

The District receives both operating grants from various sources for specific programs. Noncapital grants and contributions received during 2020 and 2019 were $135,222 and $41,783, 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.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2020 and 2019, the District had $936,519 and $965,082, 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 $250,447 and $183,062 in 2020 and 2019, respectively.

Debt

At the end of 2020 and 2019, the District had long-term debt outstanding of $234,835 and $486,475, respectively, as detailed in Note 10 of the financial statements. The District made payments totaling $251,640 and $216,162 in 2020 and in 2019, respectively.

During 2020, the District assumed a Paycheck Protection Program ("PPP") loan in the amount of $821,900, as detailed in Note 10 of the financial statements. The PPP loan was forgiven in full in June 2021.

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, 2020 AND 2019

HARDEMAN COUNTY HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

DECEMBER 31, 2020 AND 2019

ASSETS:	2020	2019
CURRENT ASSETS		
Cash and Cash Equivalents	$ 8,107,319	$ 2,350,708
Short-Term Investments	10,041	9,917
Assets Whose Use is Limited	157,612	52,509
Patients Accounts Receivable, Net of Allowances	629,967	847,547
Estimated Third-Party Payor Settlements	725,367	302,350
Inventory of Supplies	245,709	165,330
Taxes Receivable, Net of Allowance	194,678	166,082
Prepaid Expenses and Other Current Assets	171,946	569,833
Total Current Assets	10,242,639	4,464,276
CAPITAL ASSETS, Net of Accumulated Depreciation	936,519	965,082
Total Assets	$ 11,179,158	$ 5,429,358

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

HARDEMAN COUNTY HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

DECEMBER 31, 2020 AND 2019

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION:	2020	2019
CURRENT LIABILITIES		
Note Payable	$ 821,900	$ -
Current Portion of Long-Term Debt	146,999	214,273
Accounts Payable	301,491	185,969
Accrued Salaries, Benefits and Payroll Liabilities	508,347	544,072
Other Accrued Liabilities	401,250	401,510
Total Current Liabilities	2,179,987	1,345,824
LONG-TERM DEBT		
Net of Current Portion	87,836	272,202
Total Liabilities	2,267,823	1,618,026
DEFERRED INFLOWS OF RESOURCES		
Medicare Advance and Accelerated Payments	1,177,131	-
NET POSITION		
Net Investment in Capital Assets	701,684	478,607
Unrestricted	7,032,520	3,332,725
Total Net Position	7,734,204	3,811,332
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 11,179,158	$ 5,429,358

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, 2020 AND 2019

	2020	2019
OPERATING REVENUES:		
Net Patient Service Revenue	$ 8,585,637	$ 7,812,253
Other Operating Revenue	41,003	50,718
Total Operating Revenue	8,626,640	7,862,971
OPERATING EXPENSES:		
Salaries and Wages	4,414,791	3,893,053
Employee Benefits	561,924	519,783
Professional Fees and Purchased Services	2,499,356	2,061,332
Supplies and Other	2,150,821	1,736,773
Depreciation and Amortization	271,689	284,140
Total Operating Expenses	9,898,581	8,495,081
Operating Loss	(1,271,941)	(632,110)
NONOPERATING REVENUES (EXPENSES):		
Property Tax Revenue	1,209,517	878,061
Community Benefit Support	1,347,549	1,328,062
Intergovernmental Transfer Expense	(1,028,790)	(924,316)
Noncapital Grants and Contributions	135,222	41,783
Interest Expense	(12,054)	(9,173)
CARES Act Provider Relief Funds	3,364,767	-
Other Nonoperating Revenue	157,849	19,599
Total Nonoperating Revenues (Expenses)	5,187,586	1,345,208
Excess of Revenues Over Expenses Before Capital Grants and Contributions	3,915,645	713,098
Capital Grants and Contributions	7,227	51,976
Increase in Net Position	3,922,872	765,074
Net Position, Beginning of the Year	3,811,332	3,046,258
Net Position, End of Year	$ 7,734,204	$ 3,811,332

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, 2020 AND 2019

	2020	2019
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts From and on Behalf of Patients	$ 8,682,447	$ 8,126,595
Other Receipts and Payments, Net	78,825	(140,877)
Payments to Suppliers and Contractors	(3,215,718)	(2,453,136)
Payments to Employees	(5,012,440)	(4,364,714)
Net Cash Provided by Operating Activities	533,114	1,167,868
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Earnings	19,347	11,192
Purchase of Investments	(855)	(181)
Proceeds From Insurance Settlement	139,148	-
Net Cash Provided by Investing Activities	157,640	11,011
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital Grants and Contributions	7,227	51,976
Principal Payments on Long-Term Debt and Notes Payable	(251,640)	(216,162)
Interest Payments on Long-Term Debt and Notes Payable	(6,263)	(9,707)
Purchase of Capital Assets	(248,947)	(183,062)
Net Cash Used by Capital and Related Financing Activities	(499,623)	(356,955)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property Taxes	2,358,052	958,161
Noncapital Grants and Contributions	135,222	41,783
Payments for Intergovernmental Transfers	(1,028,790)	(924,316)
Proceeds from Notes Payable	821,900	-
Tobacco Proceeds	18,701	19,599
CARES Act Provider Relief Funds	3,364,767	-
Net Cash Provided by Noncapital Financing Activities	5,669,852	95,227
Net Increase in Cash and Cash Equivalents	5,860,983	917,151
Cash and Cash Equivalents, Beginning of Year	2,387,324	1,470,173
Cash and Cash Equivalents, End of Year	$ 8,248,307	$ 2,387,324

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, 2020 AND 2019

	2020	2019
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	$ 8,107,319	$ 2,350,708
Assets Whose Use is Limited - Current	140,988	36,616
Total Cash and Cash Equivalents	$ 8,248,307	$ 2,387,324
RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Loss	$ (1,271,941)	$ (632,110)
Adjustments to Reconcile Operating Loss to Net Cash Flows Provided by Operating Activities:		
Depreciation and Amortization	271,689	284,140
Provision for Bad Debts	495,330	897,098
Indigent Care Support	1,347,549	1,328,062
(Increase) Decrease in:		
Accounts Receivable, Net of Allowances	(277,750)	(1,080,606)
Estimated Third-Party Payor Settlements	(423,017)	153,948
Inventory of Supplies	(80,379)	(10,683)
Prepaid Expenses and Other Current Assets	397,887	(206,010)
Increase (Decrease) in:		
Accounts Payable	115,522	23,879
Accrued Salaries, Benefits and Payroll Liabilities	(35,725)	48,122
Other Accrued Liabilities	(6,051)	362,028
Net Cash Provided by Operating Activities	$ 533,114	$ 1,167,868

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

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.

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

Deferred Inflows of Resources – Transactions not meeting the definition of a liability that results in the consumption or acquisition of net position in one period that is applicable to future periods is reported as deferred inflows of resources.

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.

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.

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. 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.

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.

Pending Adoption of Recent Accounting Pronouncements:

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;

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pending Adoption of Recent Accounting Pronouncements (Continued):

- 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;
- 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.

Charity Care - The value of charity care provided by the District based upon its established rates, was $961,279 in 2020 and $476,766 in 2019. 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 $1,033,764 and $375,554 for the years ended December 31, 2020 and 2019, 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 at December 31, 2020 and 2019 are $725,367 and $302,350, respectively.

NOTE 2 - NET PATIENT SERVICE REVENUE (CONTINUED)

Net patient service revenue is comprised as follows:

	2020	2019
Routine Patient Services	$ 514,460	$ 757,298
Ancillary Patient Services		
Inpatient	738,493	863,854
Outpatient	9,085,961	9,921,594
Gross Patient Service Revenue	10,338,914	11,542,746
Charity	(961,279)	(476,766)
Third-Party Contractual Adjustments	(812,733)	(2,484,372)
Provision for Bad Debts	(495,330)	(897,098)
Medicaid Supplemental Payments and Other Credits	516,065	127,743
Net Patient Service Revenue	$ 8,585,637	$ 7,812,253

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.

NOTE 4 - DEPOSITS WITH FINANCIAL INSTITUTIONS

At December 31, 2020 and 2019, the carrying amount of the District's deposits with financial institutions was $8,274,972 and $2,413,134, respectively, and the bank balance was $8,387,439 and $2,507,570, respectively. The bank balances are categorized as follows:

	2020	2019
Amount Insured by the FDIC	$ 260,041	$ 259,917
Amount Collateralized with Securities Held by the Pledging Financial Institution in the District's Name	8,127,398	2,247,653
Total Bank Balance	$ 8,387,439	$ 2,507,570
Carrying Value	$ 8,274,972	$ 2,413,134

NOTE 5 – ASSETS WHOSE USE IS LIMITED

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

	2020	2019
Assets Limited as to use - Current		
Internally Designated for Capital Equipment:		
Certificates of Deposit - Short Term	$ 16,624	$ 15,893
Internally Designated for Debt Service:		
Cash & Equivalents	140,988	36,616
Total Assets Whose Use is Limited - Current	$ 157,612	$ 52,509

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, 2020 and 2019:

	2020	2019
Gross Patient Accounts Receivable	$ 1,562,834	$ 2,142,791
Less: Allowance for Bad Debts	(470,937)	(525,282)
Allowance for Contractual Adjustments	(461,930)	(769,962)
Patient Accounts Receivable, Net of Allowances	$ 629,967	$ 847,547

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, 2020 and 2019 is as follows:

	2020	2019
Medicare	21%	23%
Medicaid	2%	3%
Other Third-Party Payors	35%	33%
Patients	42%	41%
Total	100%	100%

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 2020 and 2019 was $1,209,517 and $878,061, respectively. At December 31, 2020 and 2019, the balance of property taxes receivable and its related allowance for uncollectible taxes are as follows:

	2020	2019
Property Taxes Receivable	$ 266,109	$ 283,303
Allowanace for Uncollectable Taxes	(71,431)	(117,221)
Net Property Taxes Receivable	$ 194,678	$ 166,082

NOTE 8 – CAPITAL ASSETS

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

	Balance 12/31/2019	Additions	Transfers/ Retirements	Balance 12/31/2020
Capital Assets Not Being Depreciated:				
Land	$ 71,696	$ -	$ -	$ 71,696
Construction in Progress	1,764	3,922	-	5,686
Total Capital Assets Not Being Depreciated	73,460	3,922	-	77,382
Capital Assets Being Depreciated:				
Buildings and Improvements	3,014,623	16,862		3,031,485
Equipment	3,755,943	229,663	(193,590)	3,792,016
Capital Leased Assets	321,350	-	(168,760)	152,590
Total Capital Assets Being Depreciated	7,091,916	246,525	(362,350)	6,976,091
Less: Accumulated Depreciation for:				
Building and Improvements	(2,600,342)	(78,668)		(2,679,010)
Equipment	(3,332,161)	(47,752)	94,559	(3,285,354)
Capital Leased Assets	(267,791)	(152,590)	267,791	(152,590)
Total Accumulated Depreciation	(6,200,294)	(279,010)	362,350	(6,116,954)
Total Capital Assets Being Depreciated, Net	891,622	(32,485)	-	859,137
Total Capital Assets, Net	$ 965,082	$ (28,563)	$ -	$ 936,519

NOTE 8 – CAPITAL ASSETS (CONTINUED)

	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:				
Building 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
Capital Assets, Net	$ 1,066,160	$ (101,078)	$ -	$ 965,082

Depreciation expense for the years ended December 31, 2020 and 2019 totaled $271,689 and $284,140, respectively.

NOTE 9 – NOTES PAYABLE

The following is a summary of notes payable as of December 31, 2020 and 2019 .

	Balance 12/31/2019	Additions	Reductions	Balance 12/31/2020
PPP Loan	$ -	$ 821,900	$ -	$ 821,900

Paycheck Protection Program ("PPP") loan payable to American National Bank & Trust, payable in monthly installments of $46,262, carrying an interest rate of 1.00%, with a maturity date of April 14, 2022, and secured by the U.S. Small Business Administration, the note was forgiven in June 2021.

NOTE 10 – LONG-TERM DEBT

Following is a summary of long-term debt at December 31, 2020 and 2019:

	Balance 12/31/2019	Additions	Reductions	Balance 12/31/2020	Due Within One Year
Notes Payable:					
Note Payable #1	$ 87,016	$ -	$ (79,787)	$ 7,229	$ 7,229
Note Payable #2	20,006	-	(13,975)	6,031	6,021
Note Payable #3	317,947	-	(96,372)	221,575	96,372
Total Notes Payable	424,969	-	(190,134)	234,835	109,622
Capital Lease Obligations:					
Capital Lease #1	61,506	-	(61,506)	-	-
Total Long-Term Debt	$ 486,475	$ -	$ (251,640)	$ 234,835	$ 109,622

	Balance 12/31/2018	Additions	Reductions	Balance 12/31/2019	Due Within One Year
Notes Payable:					
Note Payable #1	$ 127,788	$ -	$ (40,772)	$ 87,016	$ 42,410
Note Payable #2	33,329	-	(13,323)	20,006	13,985
Note Payable #3	414,319	-	(96,372)	317,947	96,372
Total Notes Payable	575,436	-	(150,467)	424,969	152,767
Capital Lease Obligations:					
Capital Lease #1	127,201	-	(65,695)	61,506	61,506
Total Long-Term Debt	$ 702,637	$ -	$ (216,162)	$ 486,475	$ 214,273

The terms and due dates of the District's long-term debt at December 31, 2020 and 2019 is as follows:

- Note Payable #1 – 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 #2 – 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 #3 – 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, matured on March 2019.

NOTE 10 – LONG-TERM DEBT (CONTINUED)

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

	Long-Term Debt		
For the Year Ending December 31,	Principal	Interest	Total
2021	$ 109,622	$ 1,181	$ 110,803
2022	96,372	-	96,372
2023	28,841	-	28,841
Total	$ 234,835	$ 1,181	$ 236,016

The amount of interest cost incurred in 2020 and 2019 was $12,054 and $9,173, respectively, all of which was charged to operations.

NOTE 11 – MEDICAID DISPROPORTIONATE SHARE

The Indigent Health Care and Treatment Act, passed by the 69th Texas Legislature in 1985, first apportioned funds to the Texas Department of Human Services (DHS) to provide assistance to hospitals providing a disproportionate share (DSH) of inpatient indigent health care. The State of Texas created a mechanism whereby 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 $84,834 and $93,762 and received $256,631 and $227,001 for the years ended December 31, 2020 and 2019, respectively. The District recognized revenue of $171,797 and $133,239 for the years ended December 31, 2020 and 2019, respectively. The respective net revenue is included in net patient service revenue in the accompanying statements of revenues, expenses, and changes in net position.

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 $168,565 and $248,965 and received $512,808 and $595,469 for the years ended December 31, 2020 and 2019, respectively. The District recognized revenue of $344,268 and $346,504 for the years ended December 31, 2020 and 2019, respectively.

NOTE 12 – SECTION 1115 DEMONSTRATION WAIVER PROGRAM (CONTINUED)

Uncompensated Care (Continued) - 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 $1,347,549 and $1,328,062 as of December 31, 2020 and 2019, respectively. As part of the affiliation agreement, the District provided $1,028,790 and $924,316 in funding to the program for the years ended December 31, 2020 and 2019, respectively. Additionally, at December 31, 2020 and 2019, the District recorded $-0- and $307,790, 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 2020 and 2019, 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, 2020 and 2019 were $68,672 and $77,978, respectively. Employer contributions to the plan were $-0- for both years ended December 31, 2020 and 2019.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Operating Leases - Rental expense for all operating leases was $28,159 and $22,469 during 2020 and 2019, 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.

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, 2020 and 2019. At December 31, 2020 and 2019, management recorded an estimated recoupment liability of $352,000, and $352,000, respectively. 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.

Reported 340B revenue for the year ended December 31, 2020 and 2019 of $1,104,072 and $477,690, 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, 2020 and 2019, the District recorded a 340B drug program receivable of $101,096 and $190,036, respectively. The receivable is included in prepaid expenses and other current assets in the accompanying statements of net position.

NOTE 17 – CARES ACT PROVIDER RELIEF FUNDS

The Coronavirus Aid, Relief, and Economic Security ("CARES") Act (P.L. 116-136), the Paycheck Protection Program and Health Care Enhancement Act (P.L. 116-139), and the Coronavirus Response and Relief Supplemental Appropriations Act (P.L. 116-123) appropriated funds to reimburse eligible healthcare providers for healthcare related expenses or lost revenues attributable to coronavirus. These funds were distributed by the Health Resources and Services Administration ("HRSA") through the Provider Relief Fund ("PRF") program. The District received relief funds through Phase 1-3 stimulus payments and targeted distributions such as Rural Distribution, and Allocation for Skilled Nursing Facilities ("SNF"). Recipients of these funds agreed to Terms and Conditions, which require compliance with reporting requirements as specified by the Secretary of Health and Human Services in program instructions.

- **Stimulus Phases 1-3** – By accepting the Relief Funds, the District must maintain compliance with the Secretary's terms and conditions, including but not limited to, using the Relief Funds to prevent, prepare for, and respond to coronavirus, and shall reimburse the District only for health care related expenses or lost revenues that are attributable to coronavirus. The District's commitment to full compliance with all terms and conditions is material to the Secretary's decision to disburse these funds. Non-compliance with any terms and conditions is grounds for the secretary to recoup some or all of the payment made from the Relief Fund. The District received stimulus funds in the amount of $3,364,767 and $-0- for the years ended December 31, 2020 and 2019, respectively. For the years ended December 31, 2020 and 2019, the District recognized $3,364,767 and $-0-, respectively, in PRF revenue.

- **Paycheck Protection Program ("PPP")** – Sections 1102 and 1106 of the CARES Act provides for the Paycheck Protection Program and loan forgiveness. The PPP and loan forgiveness are intended to provide economic relief to small businesses nationwide adversely impacted under the Coronavirus Disease 2019 Emergency Declaration through the provision of loans issued by the U.S. Small Business Administration ("SBA"). The PPP loan allows borrowers to cover eligible payroll costs and certain mortgage interest, rent, and utility payments during the covered period. The covered period is an eight consecutive week period beginning on the date of disbursement of the PPP loan proceeds or the first day of the first payroll cycle in the covered period. During the year ended December 31, 2020 and 2019, the District received in $821,900 and $-0-, respectively, in PPP loan proceeds. The loan carried an interest rate of 1.00%, payable in monthly installments of $46,262, matures April 14, 2022, and secured by the SBA. In July 2020, the PPP loan was forgiven in full by the SBA.

NOTE 17 – CARES ACT PROVIDER RELIEF FUNDS (CONTINUED

- **Rural Health Clinic Testing** – The Department of Health and Human Services distributed funds received from the Public Health and Social Services Emergency Fund, as appropriated in P.L. 116-139 ("Rural Testing Relief Fund"). The District is to use the funding reimburse for COVID-19 testing requirements, including purchasing supplies (such as test kits and other testing supplies). In connection with this program, the District received $98,923 and $-0- in Rural Testing Relief Funds for the years ended September 30, 2020 and 2019, respectively. For the years ended September 30, 2020 and 2019, the District recognized $98,923 and $-0-, respectively, in Rural Testing Relief revenue.

In accordance with the Department of Health and Human Services Post-Payment Notice of Reporting Requirements released January 15, 2021, the recipients must submit their use of PRF payments by reporting healthcare related expenses attributable to coronavirus that another source has not reimbursed then applying actual patient care lost revenues to the remaining funds. If recipients do not expend PRF funds in full by the end of calendar year 2020, they will have an additional six months in which to use remaining amounts toward expenses attributable to coronavirus but not reimbursed by other sources, and/or lost revenues.

NOTE 18 – MEDICARE ACCELERATED PAYMENT PROGRAM

As part of the CARES Act, providers and suppliers (including physician practices) became eligible to request up to 100% of the Medicare payment amount they have historically received over a prior 90-day period. Any advance payments received are loans in the form of cash advances and are subject to automatic recoupment by the Center for Medicare and Medicaid Services ("CMS") or repayment by the provider or supplier. CMS will recover the advance payments through automatic recoupment against all newly submitted and outstanding claims for payment. The automatic recoupment of funds will begin 120 days after disbursement. This recoupment will continue for a 90-day period through day 210 post payment. Should the advance funds be recovered sooner or should the provider elect to directly repay any advance funds, the recoupment will automatically end. Should the advance funds not be fully recovered in the allotted time frame, CMS will issue a demand for payment of the outstanding funds. The use of these advance payments is unrestricted in nature but is presumed to be for operations. The advance payments are expected to be recouped beginning in April 2021. During the years ended December 31, 2020 and 2019, the District received Medicare advance payments of $1,177,131 and $-0-, respectively. At December 31, 2020 and 2019, management recorded deferred Medicare advance payments of $1,177,131 and $-0-, respectively. The deferred Medicare advance payments are included in deferred inflows of resources in the accompanying statements of net position.

NOTE 19 – SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2020, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosure is November 15, 2021, which is the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

DURBIN&CO LLP
Certified Public Accountants

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, 2020 and 2019, and our report thereon dated November 15, 2021, 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 23 through 26 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
November 15, 2021

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HARDEMAN COUNTY HOSPITAL DISTRICT
NET PATIENT SERVICE REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Routine Services:		
Routine Services	$ 515,579	$ 757,298
Ancillary and Other Services		
Inpatient:		
Radiology and Nuclear Medicine	29,428	48,970
Laboratory	139,170	134,719
Respiratory Therapy	106,584	111,566
Physical Therapy	98,853	147,554
Speech Therapy	11,261	24,499
Electrocardiology	1,680	2,000
Central Supply	12,683	15,264
Pharmacy	334,621	376,542
Emergency	-	1,935
Observation	3,094	805
Total Inpatient Ancillary Services	737,374	863,854
Outpatient:		
Radiology and Nuclear Medicine	1,042,237	1,316,741
Laboratory	1,727,240	1,607,124
Respiratory Therapy	54,336	90,764
Physical Therapy	1,223,710	1,278,096
Speech Therapy	107,225	206,361
Electrocardiology	44,880	51,280
Central Supply	43,842	52,991
Pharmacy	699,878	795,645
Geri-Psych	1,134,947	1,513,658
Foard County Rural Health Clinic	166,638	274,978
Hardeman County Rural Health Clinic	872,399	1,092,033
Emergency Room	978,749	1,113,355
Observation	66,430	57,939
340B Revenue	930,581	477,690
Total Outpatient Ancillary Services	9,093,092	9,928,655
Gross Patient Revenue	$ 10,346,045	$ 11,549,807

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, 2020 AND 2019

	2020	2019
Gross Patient Revenue	$ 10,346,045	$ 11,549,807
Deductions from Revenue:		
Charity	(961,279)	(476,766)
Third-Party Contractual Adjustments	(812,733)	(2,484,372)
Provision for Bad Debts	(495,330)	(897,098)
Medicaid Supplemental Payments and Other Credits	516,065	127,743
Total Deductions from Revenue	(1,753,277)	(3,730,493)
Net Patient Service Revenue	$ 8,592,768	$ 7,819,314
Other Operating Revenue:		
Sale of Non-Patient Meals	$ 10,435	$ 18,015
Medical Records	1,754	1,761
Foard County Subsidy	-	3
Miscellaneous	28,814	30,939
Total Other Operating Revenue	$ 41,003	$ 50,718

See independent auditor's report on other financial information

HARDEMAN COUNTY HOSPITAL DISTRICT
OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Routine Services	$ 1,434,957	$ 1,153,399
Ancillary Services:		
Radiology and Nuclear Medicine	493,764	318,581
Laboratory	704,568	561,616
Respiratory Therapy	23,257	22,200
Physical Therapy	871,689	751,305
Speech Therapy	88,589	85,407
Medical Supplies Charged to Patients	231,155	101,664
Drugs Charged to Patients	1,162,387	757,211
Geri Psych	352,125	452,954
Foard County Rural Health Clinic	219,589	181,463
Hardeman County Rural Health Clinic	1,111,977	1,086,607
Emergency	687,099	610,975
Ambulance	4,126	5,657
Total Ancillary Services	5,950,325	4,935,640
General Services:		
Operation and Plant	241,118	219,452
Laundry and Linen	18,806	15,388
Housekeeping	82,465	72,859
Dietary	131,874	149,804
Total General Services	$ 474,263	$ 457,503

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HARDEMAN COUNTY HOSPITAL DISTRICT
OPERATING EXPENSES (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2020 AND 2019

	2020	2019
Administrative Services:		
Salaries and Wages	$ 471,557	$ 448,470
Other Operating	62,047	68,655
Employee Benefits	568,673	520,709
Supplies	25,381	24,803
Medical Records	135,360	100,893
Rental Expense	4,739	4,727
Contracted and Purchased Services	55,211	81,143
Travel and Education	820	7,286
Insurance	89,098	83,654
Legal and Accounting Fees	73,377	62,165
Utilities	10,121	18,173
Advertising	1,191	1,869
Physician Recruitment	4	62
Repairs and Maintenance	253,094	218,537
Dues and Subscriptions	10,776	3,851
Collection Fees	7,395	8,794
Miscellaneous	5,634	17,669
Total Administrative Services	1,774,478	1,671,460
Depreciation	271,689	284,140
Total Operating Expenses	$ 9,905,712	$ 8,502,142

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