HARDEMAN COUNTY HOSPITAL DISTRICT
QUANAH, TEXAS

AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2022 AND 2021

DURBIN&CO LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Hardeman County Hospital District (the "District"), as of and for the year ended December 31, 2022 and 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as presented on pages 1-5.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of December 31, 2022 and 2021, and the respective changes in financial position and cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of the District, and to meet our ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

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

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

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages A-1 through A-5 be presented to supplement the basic financial statements. Such information is the responsibility of management and although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. 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 19, 2023

HARDEMAN COUNTY HOSPITAL DISTRICT
QUANAH, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2022 AND 2021

HARDEMAN COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2022 AND 2021
(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, 2022 and 2021. 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 $1,022,475, or 11.1%, increase in 2022 over 2021.
- Net patient service revenue increased $1,122,603, or 12.5%, in 2022 over 2021.
- The District reported operating losses of $1,218,644 in 2022 and $1,391,843 in 2021.
- Total operating expenses increased $965,609, or 9.3%, in 2022 over 2021.

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 assess the overall health of the District.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?", "What was cash used for?", and "What was the change in cash balance during the reporting period?"

THE DISTRICT'S NET POSITION

The District's net position is the difference between its assets and liabilities reported in the Statement of Net Position on page 1. The District's net position increased by $1,022,475 and $1,483,813 in 2022 and 2021, respectively, as shown in **Table 1**.

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

	2022	2021	2020
Assets:			
Current Assets	$ 10,001,381	$ 9,606,997	$ 10,242,639
Capital Assets, Net	1,760,418	1,339,690	936,519
Total Assets	$ 11,761,799	$ 10,946,687	$ 11,179,158
Liabilities:			
Long-Term Debt Outstanding	$ 219,558	$ 125,203	$ 234,835
Other Current and Non-Current	1,301,749	1,141,288	2,032,988
Total Liabilities	1,521,307	1,266,491	2,267,823
Deferred Inflows of Resources	-	462,179	1,177,131
Net Position:			
Net Investment in Capital Assets	1,540,860	1,214,487	701,684
Unrestricted	8,699,632	8,003,530	7,032,520
Total Net Position	10,240,492	9,218,017	7,734,204
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 11,761,799	$ 10,946,687	$ 11,179,158

A significant component of the change in the District's net position is due to a increases in estimated third-payor settlements, property taxes receivable, and property, plant and equipment. Estimated third-party payor settlements increased due to an increase in allowable reimbursable costs from the amount the District was reimbursed during the year. Property taxes receivable increased due to an increase in the property valuation during FY 2022. Property, plant and equipment increased due to the replacement of the facility roof and purchase of generators.

OPERATING RESULTS AND CHANGES IN THE DISTRICT'S NET POSITION

In 2022 and 2021, the District's net position increased by $1,022,475 and $1,483,813, respectively.

Table 2: Operating Results and Changes in Net Position

	2022	2021	2020
OPERATING REVENUES:			
Net Patient Service Revenue	$ 10,126,832	$ 9,004,229	$ 8,592,768
Other Operating Revenue	55,700	39,495	41,003
Total Operating Revenues	10,182,532	9,043,724	8,633,771
OPERATING EXPENSES:			
Salaries, Wages, and Benefits	5,680,690	5,788,768	4,976,715
Other Operating Expenses	5,412,908	4,338,088	4,657,308
Depreciation and Amortization	307,578	308,711	271,689
Total Operating Expenses	11,401,176	10,435,567	9,905,712
Operating Loss	(1,218,644)	(1,391,843)	(1,271,941)
NONOPERATING REVENUES (EXPENSES):			
Property Tax Revenue	1,189,127	1,218,676	1,209,517
Community Benefit Support	284,511	283,656	1,347,549
Intergovernmental Transfer Expense	(53,500)	-	(1,028,790)
Noncapital Grants and Contributions	33,992	38,674	135,222
COVID-Related Financial Assistance	773,113	328,940	3,364,767
Gain on Forgiveness of Debt	-	827,859	-
Other	13,876	177,851	159,321
Total Nonoperating Revenues (Expenses)	2,241,119	2,875,656	5,187,586
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,022,475	1,483,813	3,915,645
Capital Grants and Contributions	-	-	7,227
Increase in Net Position	1,022,475	1,483,813	3,922,872
Net Position, Beginning of Year	9,218,017	7,734,204	3,811,332
Net Position, End of Year	$ 10,240,492	$ 9,218,017	$ 7,734,204

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 2022, the District reported an operating loss of $1,218,644, which is a favorable decrease of $173,199, or 12.4%, from the reported operating loss in 2021 of $1,391,843. 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 2022 are:

- Net patient service revenue increased $1,122,603, or 12.5%, in 2022
- Salaries, wages, and benefits expense decreased $108,078, or 1.9%, in 2022
- Professional fees and purchased services increased $370,161, or 16.5%, in 2022

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

- Net patient service revenue increased $411,461, or 4.8%, in 2021
- Salaries, wages, and benefits expense increased $812,053, or 16.3%, in 2021
- Professional fees and purchased services increased $265,544, or 10.6% in 2021

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of property taxes levied by the District, community benefit support revenue, noncapital grants and contributions, and COVID-related financial assistance. The District's property tax revenue decreased by $29,549, or 2.4%, in 2022 and increased by $9,159, or 0.8%, in 2021. Community benefit support revenue increased by $855, or 0.3%, in 2022 and decreased by $1,063,893, or 79.0%, in 2021. During 2022 and 2021, the District recognized $773,113 and $328,940, respectively, in COVID-19 financial assistance revenue. During 2022 and 2021, the District recognized a gain on forgiveness of debt of $-0- and $827,859, respectively, due to the forgiveness of the Paycheck Protection Program loan.

Nonoperating expenses consist primarily of intergovernmental transfer expense. The District's intergovernmental transfer expense increased by $53,500, or 100.0%, in 2022 and decreased by $1,028,790, or 100.0%, in 2021.

Grants and Contributions

The District receives both operating grants from various sources for specific programs. Noncapital grants and contributions received during 2022 and 2021 were $33,992 and $38,674, respectively.

THE DISTRICT'S CASH FLOWS

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

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2022 and 2021, the District had $1,760,418 and $1,339,690, 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 $777,645 and $711,882 in 2022 and 2021, respectively.

Debt

At the end of 2022 and 2021, the District had long-term debt outstanding of $219,558 and $125,203, respectively, as detailed in Note 10 of the financial statements. The District made payments totaling $125,645 and $109,632 in 2022 and 2021, 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, 2022 AND 2021

HARDEMAN COUNTY HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

DECEMBER 31, 2022 AND 2021

ASSETS:	2022	2021
CURRENT ASSETS		
Cash and Cash Equivalents	$ 7,056,246	$ 7,119,369
Short-Term Investments	10,179	10,091
Assets Whose Use is Limited	278,719	279,904
Patients Accounts Receivable, Net of Allowances	939,160	1,117,766
Estimated Third-Party Payor Settlements	556,260	238,175
Inventory of Supplies	301,526	259,876
Taxes Receivable, Net of Allowance	613,928	447,960
Prepaid Expenses and Other Current Assets	245,363	133,856
Total Current Assets	10,001,381	9,606,997
CAPITAL ASSETS,		
Land	73,726	71,696
Construction-in-Progress	54,000	148,100
Depreciable Capital Assets, Net	1,632,692	1,119,894
Total Capital Assets, Net	1,760,418	1,339,690
Total Assets	$ 11,761,799	$ 10,946,687

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

HARDEMAN COUNTY HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

DECEMBER 31, 2022 AND 2021

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION:	2022	2021
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 72,284	$ 96,372
Accounts Payable	443,906	241,068
Accrued Salaries, Benefits and Payroll Liabilities	513,694	536,920
Other Accrued Liabilities	344,149	363,300
Total Current Liabilities	1,374,033	1,237,660
LONG-TERM DEBT		
Net of Current Portion	147,274	28,831
Total Liabilities	1,521,307	1,266,491
DEFERRED INFLOWS OF RESOURCES		
Medicare Advance and Accelerated Payments	-	272,427
COVID-Related Financial Assistance	-	189,752
Total Deferred Inflows of Resources	-	462,179
NET POSITION		
Net Investment in Capital Assets	1,540,860	1,214,487
Unrestricted	8,699,632	8,003,530
Total Net Position	10,240,492	9,218,017
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 11,761,799	$ 10,946,687

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, 2022 AND 2021

	2022	2021
OPERATING REVENUES:		
Net Patient Service Revenue	$ 10,126,832	$ 9,004,229
Other Operating Revenue	55,700	39,495
Total Operating Revenue	10,182,532	9,043,724
OPERATING EXPENSES:		
Salaries and Wages	4,839,667	5,136,078
Employee Benefits	841,023	652,690
Professional Fees and Purchased Services	2,611,104	2,240,943
Supplies and Other	2,801,804	2,097,145
Depreciation and Amortization	307,578	308,711
Total Operating Expenses	11,401,176	10,435,567
Operating Loss	(1,218,644)	(1,391,843)
NONOPERATING REVENUES (EXPENSES):		
Property Tax Revenue	1,189,127	1,218,676
Community Benefit Support	284,511	283,656
Intergovernmental Transfer Expense	(53,500)	-
Noncapital Grants and Contributions	33,992	38,674
Interest Income	34,423	24,363
Gain (Loss) on Disposal of Assets	(49,339)	606
Interest Expense	(2,127)	(17,277)
COVID-19 Financial Assistance	773,113	328,940
Gain on Forgiveness of Debt	-	827,859
Other Nonoperating Revenue	30,919	170,159
Total Nonoperating Revenues (Expenses)	2,241,119	2,875,656
Excess of Revenues Over Expenses Before Capital Grants and Contributions	1,022,475	1,483,813
Increase in Net Position	1,022,475	1,483,813
Net Position, Beginning of the Year	9,218,017	7,734,204
Net Position, End of Year	$ 10,240,492	$ 9,218,017

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, 2022 AND 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts From and on Behalf of Patients	$ 9,694,720	$ 8,066,366
Other Receipts and Payments, Net	(52,853)	80,916
Payments to Suppliers and Contractors	(4,969,108)	(4,131,777)
Payments to Employees	(5,703,916)	(5,760,195)
Net Cash Used by Operating Activities	(1,031,157)	(1,744,690)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Earnings	34,423	24,363
Purchase of Investments	(50)	(738)
Insurance Proceeds	13,299	147,708
Net Cash Provided by Investing Activities	47,672	171,333
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal Payments on Long-Term Debt and Notes Payable	(126,865)	(109,632)
Interest Payments on Long-Term Debt and Notes Payable	(2,127)	(17,292)
Purchase of Capital Assets	(556,425)	(711,276)
Net Cash Used by Capital and Related Financing Activities	(685,417)	(838,200)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property Taxes	1,023,159	965,394
Noncapital Grants and Contributions	33,992	38,674
Payments for Intergovernmental Transfers	(53,500)	-
Tobacco Proceeds	17,620	22,451
COVID-Related Financial Assistance	583,361	518,692
Net Cash Provided by Noncapital Financing Activities	1,604,632	1,545,211
Net Decrease in Cash and Cash Equivalents	(64,270)	(866,346)
Cash and Cash Equivalents, Beginning of Year	7,381,961	8,248,307
Cash and Cash Equivalents, End of Year	$ 7,317,691	$ 7,381,961

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, 2022 AND 2021

	2022	2021
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	$ 7,056,246	$ 7,119,369
Assets Whose Use is Limited - Current	261,445	262,592
Total Cash and Cash Equivalents	$ 7,317,691	$ 7,381,961
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating Loss	$ (1,218,644)	$ (1,391,843)
Adjustments to Reconcile Operating Loss to Net Cash Flows Used by Operating Activities:		
Depreciation and Amortization	307,578	308,711
Provision for Bad Debts	415,774	521,633
Indigent Care Support	284,511	283,656
(Increase) Decrease in:		
Patient Accounts Receivable, Net of Allowances	(237,168)	(1,009,432)
Estimated Third-Party Payor Settlements	(318,085)	487,192
Inventory of Supplies	(41,650)	(14,167)
Prepaid Expenses and Other Current Assets	(111,507)	38,090
Increase (Decrease) in:		
Accounts Payable	202,838	(60,423)
Accrued Salaries, Benefits and Payroll Liabilities	(23,226)	28,573
Other Accrued Liabilities	(19,151)	(31,976)
Deferred Inflows of Resources	(272,427)	(904,704)
Net Cash Used by Operating Activities	$ (1,031,157)	$ (1,744,690)

SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:

	2022	2021
Gain on Forgiveness of Debt	$ -	$ 827,859

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 District 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 an 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 are 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 nonoperating 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 nonoperating 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 nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Newly Adopted Accounting Pronouncements:

GASB Statement No. 87 – In June 2017, Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 87 – *Leases*. The objective of this Statement is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Statement is effective for reporting periods beginning after June 15, 2021. Implementation of the Statement had no effect on the District's change in net position.

GASB Statement No. 89 – In June 2018, Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objective of this Statement is to enhance the relevance and comparability of information about the 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 periods beginning after December 15, 2020. Implementation of the Statement had no effect on the District's change in net position.

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 June 15, 2021 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Newly Adopted Accounting Pronouncements (Continued):

The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance;
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2021;
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2021;
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2021.

Implementation of the Statement had no effect on the District's change in net position.

GASB Statement No. 97 – In June 2020, the Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 97 – *Certain Component Unit Criteria, and Accounting and Financial Reporting Internal Revenue Code Section 457 Deferred Compensation Plans*—An Amendment of GASB Statements No. 14 and No. 84, and a Supersession of GASB Statement No. 32. The primary objectives of this Statement are to (1) increase consistency and comparability related to the reporting of fiduciary component units in circumstances in which a potential component unit does not have a governing board and the primary government performs the duties that a governing board typically would perform; (2) mitigate costs associated with the reporting of certain defined contribution pension plans, defined contribution other postemployment benefit (OPEB) plans, and employee benefit plans other than pension plans or OPEB plans (other employee benefit plans) as fiduciary component units in fiduciary fund financial statements; and (3) enhance the relevance, consistency, and comparability of the accounting and financial reporting for Internal Revenue Code (IRC) Section 457 deferred compensation plans (Section 457 plans) that meet the definition of a pension plan and for benefits provided through those plans. The requirements of this Statement that are related to the accounting and financial reporting for Section 457 plans are effective for fiscal years beginning after June 15, 2021, with earlier application encouraged. Implementation of the Statement had no effect on the District's change in net position.

Pending Adoption of Recent Accounting Pronouncements:

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pending Adoption of Recent Accounting Pronouncements (Continued):

The practice issues addressed by this Statement are as follows:

- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives;
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability;
- Disclosures related to nonmonetary transactions;
- Pledges of future revenues when resources are not received by the pledging government;
- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements;
- Terminology updates related to certain provisions of Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position;
- Terminology used in Statement 53 to refer to resource flows statements.

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

GASB Statement No. 100 – In June 2022, the Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 100 – *Accounting Changes and Error Corrections* – an amendment of GASB Statement No. 62. The primary objective of this Statement is to enhance accounting and financial reporting requirements for accounting changes and error corrections to provide more understandable, reliable, relevant, consistent, and comparable information for making decisions or assessing accountability. This statement is effective for fiscal years beginning after June 15, 2023, with earlier application encouraged. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

GASB Statement No. 101 – In June 2022, the Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 101 – *Compensated Absences*. The objective of this Statement is to better meet the information needs of financial statement users by updating the recognition and measurement guidance for compensated absences. That objective is achieved by aligning the recognition and measurement guidance under a unified model and by amending certain previously required disclosures. The statement is effective for fiscal years beginning after December 15, 2023, with earlier application encouraged. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

NOTE 2 - NET PATIENT SERVICE REVENUE

The District has agreements with third-party payors that provide payments to the District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors and others for services rendered and include estimated retroactive 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 $954,072 in 2022 and $1,006,812 in 2021. 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 $1,040,015 and $1,012,836 for the years ended December 31, 2022 and 2021, 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, 2022 and 2021 are $556,260 and $238,175, respectively.

NOTE 2 - NET PATIENT SERVICE REVENUE (CONTINUED)

Net patient service revenue is comprised as follows:

	2022	2021
Routine Patient Services	$ 407,603	$ 506,007
Ancillary Patient Services		
Inpatient	679,639	654,517
Outpatient	10,186,854	10,301,215
Gross Patient Service Revenue	11,274,096	11,461,739
Charity	(954,072)	(1,006,812)
Third-Party Contractual Adjustments	(408,451)	(1,211,378)
Provision for Bad Debts	(415,774)	(521,633)
Medicaid Supplemental Payments and Other Credits	631,033	282,313
Net Patient Service Revenue	$ 10,126,832	$ 9,004,229

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, 2022 and 2021, the carrying amount of the District's deposits with financial institutions was $7,345,144 and $7,409,364, respectively, and the bank balance was $7,405,608 and $7,510,583, respectively. The bank balances are categorized as follows:

	2022	2021
Amount Insured by the FDIC	$ 260,179	$ 260,091
Amount Collateralized with Securities Held by the Pledging Financial Institution in the District's Name	7,145,429	7,250,492
Total Bank Balance	$ 7,405,608	$ 7,510,583
Carrying Value	$ 7,345,144	$ 7,409,364

NOTE 5 – ASSETS WHOSE USE IS LIMITED

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

	2022	2021
Assets Limited as to use - Current		
Internally Designated for Capital Equipment:		
Certificates of Deposit - Short Term	$ 17,274	$ 17,312
Internally Designated for Debt Service:		
Cash & Equivalents	261,445	262,592
Total Assets Whose Use is Limited - Current	$ 278,719	$ 279,904

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, 2022 and 2021:

	2022	2021
Gross Patient Accounts Receivable	$ 1,922,756	$ 2,108,268
Less: Allowance for Bad Debts	(616,402)	(464,180)
Allowance for Contractual Adjustments	(367,194)	(526,322)
Patient Accounts Receivable, Net of Allowances	$ 939,160	$ 1,117,766

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, 2022 and 2021 is as follows:

	2022	2021
Medicare	16%	22%
Medicaid	4%	4%
Other Third-Party Payors	46%	46%
Patients	34%	28%
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 2022 and 2021 was $1,189,127 and $1,218,676, respectively. At December 31, 2022 and 2021, the balance of property taxes receivable and its related allowance for uncollectible taxes are as follows:

	2022	2021
Property Taxes Receivable	$ 671,776	$ 505,655
Allowance for Uncollectable Property Taxes	(57,848)	(57,695)
Net Property Taxes Receivable	$ 613,928	$ 447,960

NOTE 8 – CAPITAL ASSETS

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

	Balance 12/31/2021	Additions	Transfers/ Retirements	Balance 12/31/2022
Land	$ 71,696	$ 2,030	$ -	$ 73,726
Construction in Progress	148,100	-	(94,100)	54,000
Buildings and Improvements	3,031,485	406,675	(77,029)	3,361,131
Equipment	4,504,571	147,720	(4,690)	4,647,601
Leased Assets	-	221,220	-	221,220
Totals at Historical Cost	7,755,852	777,645	(175,819)	8,357,678
Less: Accumulated Depreciation for:				
Building and Improvements	(2,753,761)	(54,153)	89,080	(2,718,834)
Equipment	(3,662,401)	(223,929)	37,400	(3,848,930)
Leased Assets	-	(29,496)	-	(29,496)
Total Accumulated Depreciation	(6,416,162)	(307,578)	126,480	(6,597,260)
Capital Assets, Net	$ 1,339,690	$ 470,067	$ (49,339)	$ 1,760,418

NOTE 8 – CAPITAL ASSETS (CONTINUED)

	Balance 12/31/2020	Additions	Transfers/ Retirements	Balance 12/31/2021
Land	$ 71,696	$ -	$ -	$ 71,696
Construction in Progress	5,686	142,414	-	148,100
Building and Improvements	3,031,485	-	-	3,031,485
Equipment	3,792,016	569,468	143,087	4,504,571
Leased Assets	152,590	-	(152,590)	-
Totals at Historical Cost	7,053,473	711,882	(9,503)	7,755,852
Less: Accumulated Depreciation for:				
Building and Improvements	(2,679,010)	(74,751)	-	(2,753,761)
Equipment	(3,285,354)	(224,457)	(152,590)	(3,662,401)
Leased Assets	(152,590)	-	152,590	-
Total Accumulated Depreciation	(6,116,954)	(299,208)	-	(6,416,162)
Capital Assets, Net	$ 936,519	$ 412,674	$ (9,503)	$ 1,339,690

Depreciation expense for the years ended December 31, 2022 and 2021 totaled $307,578 and $308,711, respectively.

NOTE 9 – NOTES PAYABLE

The following is a summary of notes payable as of December 31, 2022 and 2021:

	Balance 12/31/2020	Additions	Reductions	Balance 12/31/2021
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. Loan is secured by the U.S. Small Business Administration (SBA). The loan was forgiven in full by the SBA in June 2021.

NOTE 10 – LONG-TERM DEBT

Following is a summary of long-term debt at December 31, 2022 and 2021:

	Balance 12/31/2021	Additions	Reductions	Balance 12/31/2022	Due Within One Year
Notes Payable:					
Note Payable #3	$ 125,203	$ -	$ (96,372)	$ 28,831	$ 28,831
Right-to-Use Lease Obligations:					
Pyxis Lease	-	220,000	(29,273)	190,727	43,453
Total Long-Term Debt	$ 125,203	$ 220,000	$ (125,645)	$ 219,558	$ 72,284

	Balance 12/31/2020	Additions	Reductions	Balance 12/31/2021	Due Within One Year
Notes Payable:					
Note Payable #1	$ 7,229	$ -	$ (7,229)	$ -	$ -
Note Payable #2	6,031	-	(6,031)	-	-
Note Payable #3	221,575	-	(96,372)	125,203	96,372
Total Notes Payable	$ 234,835	$ -	$ (109,632)	$ 125,203	$ 96,372
Total Long-Term Debt	$ 234,835	$ -	$ (109,632)	$ 125,203	$ 96,372

The terms and due dates of the District's long-term debt at December 31, 2022 and 2021 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, matured 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 matured 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.
- Pyxis Lease – lease obligation bearing interest at 1.34%, due in 60 monthly installments of $3,814, collateralized by equipment, matures on May 5, 2027.

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
2023	$ 72,284	$ 2,315	$ 74,599
2024	44,039	1,729	45,768
2025	44,633	1,135	45,768
2026	45,235	533	45,768
2027	13,367	43	13,410
Total	$ 219,558	$ 5,755	$ 225,313

The amount of interest cost incurred in 2022 and 2021 was $2,127 and $17,277, 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 the 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 $92,974 and $175,628 and received $280,525 and $204,933 for the years ended December 31, 2022 and 2021, respectively. The District recognized revenue of $187,551 and $142,522 for the years ended December 31, 2022 and 2021, 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 $180,925 and $66,307 and received $624,407 and $206,098 for the years ended December 31, 2022 and 2021, respectively. The District recognized revenue of $443,482 and $139,791 for the years ended December 31, 2022 and 2021, 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 $284,511 and $283,656 as of December 31, 2022 and 2021, respectively. As part of the affiliation agreement, the District provided $53,500 and $-0- in funding to the program for the years ended December 31, 2022 and 2021, respectively.

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

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

This program is facilitated through the District providing an intergovernmental transfer whereby federal matching funds are provided to supplement the District's shortfall in Medicaid funding. In connection with this program, the District provided intergovernmental transfers of $40,144 and $-0- for the years ended December 31, 2022 and 2021, respectively.

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 2022 and 2021, 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, 2022 and 2021 were $111,831 and $65,354, respectively. Employer contributions to the plan were $53,110 and $-0- for the years ended December 31, 2022 and 2021.

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Operating Leases - Rental expense for all operating leases was $16,755 and $20,076 during 2022 and 2021, 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, 2022 and 2021. At December 31, 2022 and 2021, management recorded an estimated recoupment liability of $232,000 and $311,124, 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 for 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, 2022 and 2021 of $664,800 and $893,188, 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, 2022 and 2021, the District recorded a 340B drug program receivable of $32,651 and $87,942, respectively. The receivable is included in prepaid expenses and other current assets in the accompanying statements of net position.

NOTE 17 – COVID-19 FINANCIAL ASSISTANCE

The Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136), American Rescue Plan (ARP) Act (P.L. 117-2), the Paycheck Protection Program (PPP) and Health Care Enhancement Act (P.L. 116-139), and the Coronavirus Response and Relief Supplemental Appropriations (CRRSA) Act (P.L. 116-123) appropriated funds to reimburse eligible healthcare providers for healthcare related expenses or lost revenues attributable to coronavirus. These funds were distributed by the Health Resources and Services Administration (HRSA) through the Provider Relief Fund (PRF) program. The District received relief funds through Targeted Distribution stimulus payments and Rural Health Clinic Testing payments. Recipients of these funds agreed to Terms and Conditions, which require compliance with reporting requirements as specified by the Secretary of Health and Human Services in program instructions.

- **Targeted Distributions –** 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 recognized Targeted Distribution funds in the amount of $33,251 and $263,891 for the years ended December 31, 2022 and 2021, respectively.

NOTE 17 – COVID-19 FINANCIAL ASSISTANCE (CONTINUED)

In accordance with the Department of Health and Human Services Post-Payment Notice of Reporting Requirements released June 11, 2021, the recipients must submit their use of PRF payments by reporting healthcare related expenses attributable to coronavirus that another source has not reimbursed then applying actual patient care lost revenues to the remaining funds. The period of availability of funds is based on the date the payment is received as follows:

Payment Received Period	Period of Availability
April 10, 2020 through June 30, 2020	January 1, 2020 through June 30, 2021
July 1, 2020 through December 31, 2020	January 1, 2020 through December 31, 2021
January 1, 2021 through June 30, 2021	January 1, 2020 through June 30, 2022
July 1, 2021 through December 31, 2021	January 1, 2020 through December 31, 2022
January 1, 2022 through June 30, 2022	January 1, 2020 through June 30, 2023

If recipients do not expend PRF funds in full by these deadlines toward expenses attributable to COVID-19 but not reimbursed by other sources, and/or lost revenues, the funds may become subject to recoupment.

Rural Health Clinic COVID-19 Testing and Mitigation Program (RHCCTM) – In March 2021, the United States Congress passed the American Rescue Plan ("ARP") Act (P.L. 117-2). The ARP Act appropriated additional funds to address the continued impact of COVID-19 on the economy, public health, state and local governments, individuals, and businesses. These funds were distributed by the Health Resources and Services Administration ("HRSA") through the RHCCTM program. The RHCCTM program provides assistance for maintaining and increasing the range of mitigation activities in local communities and grant revenue is recognized as qualifying expenditures are incurred over the grant period. The District was awarded RHCCTM program funds in the amount of $-0- and $200,000 for the years ended December 31, 2022 and 2021, respectively. For the years ended December 31, 2022 and 2021, management recognized $156,501 and $43,499, respectively, in RHCCTM program revenue.

NOTE 17 – COVID-19 FINANCIAL ASSISTANCE (CONTINUED)

Community-based Workforce for COVID-19 Vaccine Program – In March 2021, the United States Congress passed the American Rescue Plan ("ARP") Act (P.L. 117-2). The ARP Act appropriated additional funds to address the continued impact of COVID-19 on the economy, public health, state and local governments, individuals, and businesses. These funds were distributed by the Health Resources Services Administration ("HRSA") through the Rural Health Clinic Vaccine Confidence ("RHCVC") program. The RHCVC program supports vaccine outreach in rural communities and grant revenue is recognized as qualifying expenditures are incurred over the grant period. The District was awarded $-0- and $99,058 for the years ended December 31, 2022 and 2021, and recognized $76,701 and $21,550, respectively, in RHCVC program revenue.

Coronavirus State and Local Fiscal Recovery Funds (SLFRF) – The Texas Department of Health and Human Services Commission ("HHSC") received funding from the United States Department of the Treasury to distribute to facilities in the state of Texas for the purpose of supporting their response to and recovery from the COVID-19 public health emergency. The funding was distributed in two Tiers under the Rural Hospital COVID-19 In Healthcare Relief Grant program (RH-CHRG). During 2022, the District was awarded $250,000 and $367,345 in Tier 1 and Tier 2 funds, respectively. For the years ended December 31, 2022 and 2021, the District recognized $355,152 and $-0-, respectively, in SLFRF revenue.

Small Rural Hospital Improvement Program Coronavirus Testing and Mitigation Program (CTMP) – The Health Resources and Services Administration (HRSA) received funding through the American Rescue Plan Act for COVID-19 testing and mitigation initiatives. This program was funded through the Small Rural Hospital Improvement Program, the Coronavirus Testing and Mitigation Program to support rural hospitals in expanding their COVID testing capacity and mitigation efforts. In November 2022, the District was awarded $255,561 in CTMP funds. For the years ended December 31, 2022 and 2021, the District recognized $151,508 and $-0-, respectively in CTMP grant revenue. At December 31, 2022 and 2021, the District recorded a receivable of $151,508 and $-0-, respectively, in CTMP grant revenue. The CTMP grant revenue is included in prepaid expenses and other current assets in the accompanying statements of net position.

NOTE 18 – MEDICARE ACCELERATED ADVANCED PAYMENTS

On March 28, 2020, Centers for Medicare and Medicaid Services (CMS) expanded the existing Accelerated and Advanced Payments Program (AAP) to a broader group of Medicare Part A providers and Part B suppliers. An accelerated or advanced payment is a payment intended to provide necessary funds when there is a disruption in claims submission and/or claims processing. CMS can also offer these payments in circumstances such as national emergencies, or natural disasters, in order to accelerate cash flow to the impacted health care providers and suppliers. The passage of the Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136) on March 27, 2020, amended the existing Accelerated Payments Program to provide additional benefits and flexibilities.

NOTE 18 – MEDICARE ACCELERATED ADVANCED PAYMENTS (CONTINUED)

The Continuing Appropriations Act, 2021 and Other Extensions Act (P.L. 116-159), enacted on October 1, 2020, amended the repayment terms for all providers who requested and received accelerated and advanced payments during the COVID-19 Public Health Emergency. Repayment does not begin until one year from the date the accelerated or advanced payment was issued. Beginning one year from the date the payment was issued and continuing for 11 months, Medicare payments owed to providers and suppliers will be recouped at a rate of 25%. After 11 months have ended, Medicare payments owed to the providers and suppliers will be recouped at a rate of 50% for another six months. After six months have ended, a letter for any remaining balance of the accelerated or advanced payments will be issued. As of December 31, 2022 and 2021, the District's outstanding balance related to the Medicare Accelerated Advance Payments was $-0- and $272,427, respectively, and is included within deferred inflows of resources on the accompanying statements of net position.

NOTE 19 – SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2022, the date of the most recent statements of net position, have been evaluated for possible adjustment to the financial statements or disclosure is June 19, 2023, 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, 2022 and 2021, and our report thereon dated June 19, 2023, 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 26 through 29 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 19, 2023

HARDEMAN COUNTY HOSPITAL DISTRICT
NET PATIENT SERVICE REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Routine Services:		
Routine Services	$ 407,603	$ 506,007
Ancillary and Other Services		
Inpatient:		
Operating Room	1,769	-
Radiology and Nuclear Medicine	37,366	43,287
Laboratory	159,883	194,177
Respiratory Therapy	65,248	50,467
Physical Therapy	98,231	86,706
Speech Therapy	10,032	11,581
Electrocardiology	1,520	2,240
Central Supply	9,660	9,134
Pharmacy	295,294	256,099
Emergency	265	-
Observation	371	826
Total Inpatient Ancillary Services	679,639	654,517
Outpatient:		
Radiology and Nuclear Medicine	1,351,652	1,417,391
Laboratory	2,012,066	1,761,918
Respiratory Therapy	26,136	41,213
Physical Therapy	1,130,401	1,264,330
Speech Therapy	156,680	99,246
Electrocardiology	46,000	44,560
Central Supply	37,136	53,158
Pharmacy	1,118,220	934,947
Geri-Psych	1,139,176	1,388,110
Foard County Rural Health Clinic	186,025	156,204
Hardeman County Rural Health Clinic	1,268,852	1,171,274
Emergency Room	1,001,669	1,013,236
Observation	48,041	62,440
340B Revenue	664,800	893,188
Total Outpatient Ancillary Services	10,186,854	10,301,215
Gross Patient Revenue	$ 11,274,096	$ 11,461,739

HARDEMAN COUNTY HOSPITAL DISTRICT
NET PATIENT SERVICE REVENUE AND OTHER OPERATING REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Gross Patient Revenue	$ 11,274,096	$ 11,461,739
Deductions from Revenue:		
Charity	(954,072)	(1,006,812)
Third-Party Contractual Adjustments	(408,451)	(1,211,378)
Provision for Bad Debts	(415,774)	(521,633)
Medicaid Supplemental Payments and Other Credits	631,033	282,313
Total Deductions from Revenue	(1,147,264)	(2,457,510)
Net Patient Service Revenue	$ 10,126,832	$ 9,004,229
Other Operating Revenue:		
Sale of Non-Patient Meals	$ 16,702	$ 7,615
Medical Records	1,953	1,945
Foard County Subsidy	15	-
Miscellaneous	37,030	29,935
Total Other Operating Revenue	$ 55,700	$ 39,495

See independent auditor's report on other financial information.

HARDEMAN COUNTY HOSPITAL DISTRICT
OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Routine Services	$ 1,699,403	$ 1,625,887
Ancillary Services:		
Radiology and Nuclear Medicine	367,646	294,986
Laboratory	878,547	712,950
Respiratory Therapy	27,102	21,632
Physical Therapy	775,721	845,655
Speech Therapy	93,920	93,109
Medical Supplies Charged to Patients	117,823	238,182
Drugs Charged to Patients	1,427,990	1,236,374
Geri Psych	327,226	361,004
Foard County Rural Health Clinic	217,068	197,274
Hardeman County Rural Health Clinic	1,308,111	1,156,841
Emergency	791,277	767,331
Ambulance	2,405	1,472
Total Ancillary Services	6,334,836	5,926,810
General Services:		
Operation and Plant	297,396	250,658
Laundry and Linen	30,499	27,636
Housekeeping	146,716	122,272
Dietary	188,917	163,671
Total General Services	$ 663,528	$ 564,237

See independent auditor's report on other financial information.

HARDEMAN COUNTY HOSPITAL DISTRICT
OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2022 AND 2021

	2022	2021
Administrative Services:		
Salaries and Wages	$ 527,649	$ 531,217
Other Operating	89,701	62,209
Employee Benefits	844,463	661,329
Supplies	57,550	20,246
Medical Records	131,737	151,815
Rental Expense	3,768	4,346
Contracted and Purchased Services	203,808	111,336
Travel and Education	12,568	1,386
Insurance	101,856	94,948
Legal and Accounting Fees	26,757	48,537
Utilities	31,128	24,236
Advertising	8,211	3,544
Physician Recruitment	31,798	71
Repairs and Maintenance	311,912	275,694
Dues and Subscriptions	2,947	4,324
Collection Fees	5,248	7,757
Miscellaneous	4,730	6,927
Total Administrative Services	2,395,831	2,009,922
Depreciation	307,578	308,711
Total Operating Expenses	$ 11,401,176	$ 10,435,567

See independent auditor's report on other financial information.