

**HARDEMAN COUNTY HOSPITAL DISTRICT
QUANAH, TEXAS**

**AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2023 AND 2022**



INDEPENDENT AUDITOR'S REPORT

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

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 years ended December 31, 2023 and 2022, 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, 2023 and 2022, and the respective changes in financial position and, where applicable, 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 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.

D & Co., LLP

D & Co., L.L.P.
Lubbock, Texas
May 21, 2024

**HARDEMAN COUNTY HOSPITAL DISTRICT
QUANAHA, TEXAS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

**AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2023 AND 2022**

**HARDEMAN COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2023 AND 2022
(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, 2023 and 2022. 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 \$575,160, or 5.6%, increase in 2023 over 2022.
- Net patient service revenue increased \$212,455, or 2.1%, in 2023 over 2022.
- The District reported operating losses of \$1,392,855 in 2023 and \$1,218,644 in 2022.
- Total operating expenses increased \$381,900, or 3.3%, in 2023 over 2022.

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.

**HARDEMAN COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2023 AND 2022
(Unaudited)**

The Statement of Cash Flows

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

THE DISTRICT'S NET POSITION

The District's net position is the difference between its assets, liabilities, and deferred inflows of resources reported in the Statement of Net Position on page 1. The District's net position increased by \$575,160 and \$1,022,475 in 2023 and 2022, respectively, as shown in Table 1.

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

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Assets:			
Current Assets	\$ 10,390,382	\$ 10,001,381	\$ 9,606,997
Capital and Lease Assets, Net	<u>1,506,208</u>	<u>1,760,418</u>	<u>1,339,690</u>
Total Assets	<u>\$ 11,896,590</u>	<u>\$ 11,761,799</u>	<u>\$ 10,946,687</u>
Liabilities:			
Long-Term Debt Outstanding	\$ 148,773	\$ 219,558	\$ 125,203
Other Current and Non-Current	<u>932,165</u>	<u>1,301,749</u>	<u>1,141,288</u>
Total Liabilities	1,080,938	1,521,307	1,266,491
Deferred Inflows of Resources	<u>-</u>	<u>-</u>	<u>462,179</u>
Net Position:			
Net Investment in Capital Assets	1,357,435	1,540,860	1,214,487
Unrestricted	<u>9,458,217</u>	<u>8,699,632</u>	<u>8,003,530</u>
Total Net Position	<u>10,815,652</u>	<u>10,240,492</u>	<u>9,218,017</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 11,896,590</u>	<u>\$ 11,761,799</u>	<u>\$ 10,946,687</u>

**HARDEMAN COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2023 AND 2022
(Unaudited)**

OPERATING RESULTS AND CHANGES IN THE DISTRICT'S NET POSITION

In 2023 and 2022, the District's net position increased by \$575,160 and \$1,022,475, respectively.

Table 2: Operating Results and Changes in Net Position

	<u>2023</u>	<u>2022</u>	<u>2021</u>
OPERATING REVENUES:			
Net Patient Service Revenue	\$ 10,339,287	\$ 10,126,832	\$ 9,004,229
Other Operating Revenue	50,934	55,700	39,495
Total Operating Revenues	<u>10,390,221</u>	<u>10,182,532</u>	<u>9,043,724</u>
OPERATING EXPENSES:			
Salaries, Wages, and Benefits	6,123,601	5,680,690	5,788,768
Other Operating Expenses	5,304,028	5,412,908	4,338,088
Depreciation and Amortization	355,447	307,578	308,711
Total Operating Expenses	<u>11,783,076</u>	<u>11,401,176</u>	<u>10,435,567</u>
Operating Loss	(1,392,855)	(1,218,644)	(1,391,843)
NONOPERATING REVENUES (EXPENSES):			
Property Tax Revenue	1,205,147	1,189,127	1,218,676
Community Benefit Support	283,376	284,511	283,656
Intergovernmental Transfer Expense	-	(53,500)	-
Noncapital Grants and Contributions	36,698	33,992	38,674
Federal Financial Assistance	366,246	773,113	328,940
Gain on Forgiveness of Debt	-	-	827,859
Other	76,548	13,876	177,851
Total Nonoperating Revenues (Expenses)	<u>1,968,015</u>	<u>2,241,119</u>	<u>2,875,656</u>
Increase in Net Position	575,160	1,022,475	1,483,813
Net Position, Beginning of Year	<u>10,240,492</u>	<u>9,218,017</u>	<u>7,734,204</u>
Net Position, End of Year	<u>\$ 10,815,652</u>	<u>\$ 10,240,492</u>	<u>\$ 9,218,017</u>

**HARDEMAN COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2023 AND 2022
(Unaudited)**

Operating Loss

The first component of the overall change in the District's net position is its operating loss - generally, the difference between net patient service revenue and the expenses incurred to perform those services. In 2023, the District reported an operating loss of \$1,392,855, which is a unfavorable increase of \$174,211, or 14.3%, from the reported operating loss in 2022 of \$1,218,644. 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 2023 are:

- Net patient service revenue increased \$212,455, or 2.1%, in 2023
- Salaries, wages, and benefits expense increased \$442,911, or 7.8%, in 2023
- Supplies and other expense increased \$226,201, or 8.1%, in 2023

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

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of property taxes levied by the District, community benefit support revenue, noncapital grants and contributions, and federal financial assistance. The District's property tax revenue increased by \$16,020, or 1.3%, in 2023 and decreased by \$29,549, or 2.4%, in 2022. During 2023 and 2022, the District recognized \$366,246 and \$773,113, respectively, in federal financial assistance revenue.

Nonoperating expenses consist primarily of intergovernmental transfer expense. The District's intergovernmental transfer expense decreased by \$53,500, or 100.0%, in 2023 and increased by \$53,500, or 100.0%, in 2022.

Grants and Contributions

The District receives both operating grants from various sources for specific programs. Noncapital grants and contributions received during 2023 and 2022 were \$36,698 and \$33,992, 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.

**HARDEMAN COUNTY HOSPITAL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2023 AND 2022
(Unaudited)**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital and Lease Assets

At the end of 2023 and 2022, the District had \$1,358,728 and \$1,568,694, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 8 of the financial statements. The District acquired capital and lease assets in the amount of \$101,237 and \$777,645 in 2023 and 2022, respectively.

At the end of 2023 and 2022, the District had \$147,480 and \$191,724, respectively, invested in leased assets, net of accumulated amortization, as detailed in Note 8 of the financial statements, compared to \$191,724 in 2022. The District acquired leased assets in the amount of \$-0- and \$221,220 in 2023 and 2022, respectively.

Debt

At the end of 2023 and 2022, the District had long-term debt and lease liabilities of \$148,773 and \$219,558, respectively, as detailed in Note 9 of the financial statements. The District made payments totaling \$70,785 and \$125,645 in 2023 and 2022, 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, 2023 AND 2022**

HARDEMAN COUNTY HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

DECEMBER 31, 2023 AND 2022

ASSETS:	<u>2023</u>	<u>2022</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 7,817,678	\$ 7,056,246
Short-Term Investments	10,464	10,179
Assets Whose Use is Limited	54,024	278,719
Patient Accounts Receivable, Net of Allowances	1,205,583	939,160
Estimated Third-Party Payor Settlements	489,628	556,260
Inventory of Supplies	278,540	301,526
Taxes Receivable, Net of Allowance	453,489	613,928
Prepaid Expenses and Other Current Assets	<u>80,976</u>	<u>245,363</u>
Total Current Assets	10,390,382	10,001,381
CAPITAL AND LEASE ASSETS, NET	<u>1,506,208</u>	<u>1,760,418</u>
Total Assets	<u><u>\$ 11,896,590</u></u>	<u><u>\$ 11,761,799</u></u>

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

HARDEMAN COUNTY HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

DECEMBER 31, 2023 AND 2022

LIABILITIES AND NET POSITION:	<u>2023</u>	<u>2022</u>
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	\$ 44,039	\$ 72,284
Accounts Payable	249,916	443,906
Accrued Payroll, Benefits and Related Liabilities	586,936	513,694
Other Accrued Liabilities	95,313	344,149
Total Current Liabilities	<u>976,204</u>	<u>1,374,033</u>
LONG-TERM DEBT		
Net of Current Portion	<u>104,734</u>	<u>147,274</u>
Total Liabilities	1,080,938	1,521,307
NET POSITION		
Net Investment in Capital Assets	1,357,435	1,540,860
Unrestricted	<u>9,458,217</u>	<u>8,699,632</u>
Total Net Position	<u>10,815,652</u>	<u>10,240,492</u>
Total Liabilities and Net Position	<u>\$ 11,896,590</u>	<u>\$ 11,761,799</u>

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

HARDEMAN COUNTY HOSPITAL DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
OPERATING REVENUES:		
Net Patient Service Revenue	\$ 10,339,287	\$ 10,126,832
Other Operating Revenue	50,934	55,700
Total Operating Revenue	<u>10,390,221</u>	<u>10,182,532</u>
OPERATING EXPENSES:		
Salaries and Wages	5,215,907	4,839,667
Employee Benefits	907,694	841,023
Professional Fees and Purchased Services	2,276,023	2,611,104
Supplies and Other	3,028,005	2,801,804
Depreciation and Amortization	355,447	307,578
Total Operating Expenses	<u>11,783,076</u>	<u>11,401,176</u>
Operating Loss	(1,392,855)	(1,218,644)
NONOPERATING REVENUES (EXPENSES):		
Property Tax Revenue	1,205,147	1,189,127
Community Benefit Support	283,376	284,511
Intergovernmental Transfer Expense	-	(53,500)
Noncapital Grants and Contributions	36,698	33,992
Interest Income	60,093	34,423
Loss on Disposal of Assets	-	(49,339)
Interest Expense	(2,996)	(2,127)
Federal Financial Assistance	366,246	773,113
Other Nonoperating Revenue	19,451	30,919
Total Nonoperating Revenues (Expenses)	<u>1,968,015</u>	<u>2,241,119</u>
Increase in Net Position	575,160	1,022,475
Net Position, Beginning of the Year	<u>10,240,492</u>	<u>9,218,017</u>
Net Position, End of Year	<u>\$ 10,815,652</u>	<u>\$ 10,240,492</u>

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, 2023 AND 2022

	<u>2023</u>	<u>2022</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts From and on Behalf of Patients	\$ 9,888,687	\$ 9,694,720
Other Receipts and Payments, Net	224,858	(52,853)
Payments to Suppliers and Contractors	(5,199,220)	(4,969,108)
Payments to Employees	<u>(6,050,359)</u>	<u>(5,703,916)</u>
Net Cash Used by Operating Activities	(1,136,034)	(1,031,157)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Earnings	60,093	34,423
Purchase of Investments	(3,942)	(50)
Insurance Proceeds	-	<u>13,299</u>
Net Cash Provided by Investing Activities	<u>56,151</u>	<u>47,672</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal Payments on Long-Term Debt and Notes Payable	(70,785)	(126,865)
Interest Payments on Long-Term Debt and Notes Payable	(2,996)	(2,127)
Purchase of Capital Assets	<u>(101,237)</u>	<u>(556,425)</u>
Net Cash Used by Capital and Related Financing Activities	(175,018)	(685,417)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property Taxes	1,365,586	1,023,159
Noncapital Grants and Contributions	36,698	33,992
Payments for Intergovernmental Transfers	-	(53,500)
Tobacco Proceeds	19,451	17,620
Federal Financial Assistance	<u>366,246</u>	<u>583,361</u>
Net Cash Provided by Noncapital Financing Activities	<u>1,787,981</u>	<u>1,604,632</u>
Net Increase (Decrease) in Cash and Cash Equivalents	533,080	(64,270)
Cash and Cash Equivalents, Beginning of Year	<u>7,317,691</u>	<u>7,381,961</u>
Cash and Cash Equivalents, End of Year	<u>\$ 7,850,771</u>	<u>\$ 7,317,691</u>

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

HARDEMAN COUNTY HOSPITAL DISTRICT
STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022

	2023	2022
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	\$ 7,817,678	\$ 7,056,246
Assets Whose Use is Limited - Current	33,093	261,445
Total Cash and Cash Equivalents	\$ 7,850,771	\$ 7,317,691
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating Loss	\$ (1,392,855)	\$ (1,218,644)
Adjustments to Reconcile Operating Loss to Net Cash Flows		
Used by Operating Activities:		
Depreciation and Amortization	355,447	307,578
Provision for Bad Debts	499,276	415,774
Indigent Care Support	283,376	284,511
(Increase) Decrease in:		
Patient Accounts Receivable, Net of Allowances	(765,699)	(237,168)
Estimated Third-Party Payor Settlements	66,632	(318,085)
Inventory of Supplies	22,986	(41,650)
Prepaid Expenses and Other Current Assets	164,387	(111,507)
Increase (Decrease) in:		
Accounts Payable	(193,990)	202,838
Accrued Payroll, Benefits and Related Liabilities	73,242	(23,226)
Other Accrued Liabilities	(248,836)	(19,151)
Deferred Inflows of Resources	-	(272,427)
Net Cash Used by Operating Activities	\$ (1,136,034)	\$ (1,031,157)

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

**HARDEMAN COUNTY HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022**

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.

**HARDEMAN COUNTY HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2023 AND 2022**

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. 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

Lease Assets – Lease assets are initially recorded at the initial measurement of the lease liability, plus lease payments made at or before the commencement of the lease term, less any incentives received from the lessor at or before the commencement of the lease, plus initial direct costs that are ancillary to place the asset in service. Lease assets are amortized on a straight-line method over the shorter of the lease term or the useful life of the underlying asset. The District has a capitalization policy to only record lease assets related to leases with more than \$5,000 of payments over the lease term.

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.

**HARDEMAN COUNTY HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2023 AND 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 service 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.

**HARDEMAN COUNTY HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2023 AND 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Newly Adopted Accounting Pronouncements:

GASB Statement No. 96 – In May 2020, the Governmental Accounting Standards Board (“GASB”) issued GASB Statement No. 96 – *Subscription-Based Information Technology Arrangements*. This Statement provides guidance on the accounting and financial reporting for subscription-based information technology arrangements (SBITAs) for government end users (governments). This Statement (1) defines a SBITA; (2) establishes that a SBITA results in a right-to-use subscription asset—an intangible asset—and a corresponding subscription liability; (3) provides the capitalization criteria for outlays other than subscription payments, including implementation costs of a SBITA, and (4) requires note disclosures regarding a SBITA. To the extent relevant, the standards for SBITAs are based on the standards established in Statement No. 87, Leases, as amended. This statement is effective for reporting periods beginning after June 15, 2022, with earlier application encouraged. Implementation of the Statement had no effect on the District’s change in net position.

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.

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;

**HARDEMAN COUNTY HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2023 AND 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Newly Adopted Accounting Pronouncements (Continued):

GASB Statement No. 99 (Continued):

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

Pending Adoption of Recent Accounting Pronouncements:

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.

**HARDEMAN COUNTY HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2023 AND 2022**

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pending Adoption of Recent Accounting Pronouncements (Continued):

GASB Statement No. 102 – In December 2023, the Governmental Accounting Standards Board (“GASB”) issued GASB Statement No. 102 – *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government’s vulnerabilities due to certain concentrations or constraints. The Statement is effective for fiscal years beginning after June 15, 2024, with earlier application encouraged. 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 \$896,843 in 2023 and \$954,072 in 2022. 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 \$953,308 and \$1,040,015 for the years ended December 31, 2023 and 2022, 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, 2023 and 2022 are \$489,628 and \$556,260, respectively.

**HARDEMAN COUNTY HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2023 AND 2022**

NOTE 2 – NET PATIENT SERVICE REVENUE (CONTINUED)

Net patient service revenue is comprised as follows:

	<u>2023</u>	<u>2022</u>
Routine Patient Services	\$ 483,076	\$ 407,603
Ancillary Patient Services		
Inpatient	652,525	679,639
Outpatient	<u>10,832,316</u>	<u>10,186,854</u>
Gross Patient Service Revenue	11,967,917	11,274,096
Charity	(896,843)	(954,072)
Third-Party Contractual Adjustments	(830,034)	(408,451)
Provision for Bad Debts	(499,276)	(415,774)
Medicaid Supplemental Payments and Other Credits	<u>597,523</u>	<u>631,033</u>
Net Patient Service Revenue	<u>\$10,339,287</u>	<u>\$10,126,832</u>

NOTE 3 – SHORT-TERM INVESTMENTS

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

NOTE 4 – DEPOSITS WITH FINANCIAL INSTITUTIONS

At December 31, 2023 and 2022, the carrying amount of the District's deposits with financial institutions was \$7,882,166 and \$7,345,144, respectively, and the bank balance was \$7,942,075 and \$7,405,608, respectively. The bank balances are categorized as follows:

	<u>2023</u>	<u>2022</u>
Amount Insured by the FDIC	\$ 260,464	\$ 260,179
Amount Collateralized with Securities Held by the Pledging Financial Institution in the District's Name	<u>7,681,611</u>	<u>7,145,429</u>
Total Bank Balance	<u>\$ 7,942,075</u>	<u>\$ 7,405,608</u>

**HARDEMAN COUNTY HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2023 AND 2022**

NOTE 5 – ASSETS WHOSE USE IS LIMITED

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

	<u>2023</u>	<u>2022</u>
Assets Limited as to use - Current		
Internally Designated for Capital Equipment:		
Certificates of Deposit - Short Term	\$ 20,931	\$ 17,274
Internally Designated for Debt Service:		
Cash & Equivalents	<u>33,093</u>	<u>261,445</u>
 Total Assets Whose Use is Limited - Current	 <u>\$ 54,024</u>	 <u>\$ 278,719</u>

NOTE 6 – PATIENT ACCOUNTS RECEIVABLE

The District grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. Patient accounts receivable consist of the following at December 31, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
Gross Patient Accounts Receivable	\$ 2,432,356	\$ 1,922,756
Less: Allowance for Bad Debts	(693,136)	(616,402)
Allowance for Contractual Adjustments	<u>(533,637)</u>	<u>(367,194)</u>
Patient Accounts Receivable, Net of Allowances	<u>\$ 1,205,583</u>	<u>\$ 939,160</u>

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, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Medicare	18%	16%
Medicaid	3%	4%
Other Third-Party Payors	50%	46%
Patients	<u>29%</u>	<u>34%</u>
 Total	 <u>100%</u>	 <u>100%</u>

**HARDEMAN COUNTY HOSPITAL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2023 AND 2022**

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. Property taxes are reported as revenues in the period for which they are levied. Property tax revenue net of related expenses for 2023 and 2022 was \$1,205,147 and \$1,189,127, respectively. At December 31, 2023 and 2022, the balance of property taxes receivable and its related allowance for uncollectible taxes are as follows:

	<u>2023</u>	<u>2022</u>
Property Taxes Receivable	\$ 510,180	\$ 671,776
Allowance for Uncollectable Property Taxes	<u>(56,691)</u>	<u>(57,848)</u>
Net Property Taxes Receivable	<u>\$ 453,489</u>	<u>\$ 613,928</u>

NOTE 8 – CAPITAL AND LEASE ASSETS

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

	<u>Balance 12/31/2022</u>	<u>Additions</u>	<u>Transfers/ Retirements</u>	<u>Balance 12/31/2023</u>
Capital and Lease Assets:				
Land	\$ 73,726	\$ -	\$ -	\$ 73,726
Construction in Progress	54,000	-	(54,000)	-
Buildings and Improvements	3,361,131	34,318	54,000	3,449,449
Equipment	4,647,601	66,919	-	4,714,520
Lease Asset - Equipment	<u>221,220</u>	<u>-</u>	<u>-</u>	<u>221,220</u>
Total Capital and Lease Assets	8,357,678	101,237	-	8,458,915
Accumulated Depreciation and Amortization	<u>(6,597,260)</u>	<u>(355,447)</u>	<u>-</u>	<u>(6,952,707)</u>
Capital and Lease Assets, Net	<u>\$ 1,760,418</u>	<u>\$ (254,210)</u>	<u>\$ -</u>	<u>\$ 1,506,208</u>

**HARDEMAN COUNTY HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2023 AND 2022**

NOTE 8 – CAPITAL AND LEASE ASSETS (CONTINUED)

	Balance 12/31/2021	Additions	Transfers/ Retirements	Balance 12/31/2022
Capital and Lease Assets:				
Land	\$ 71,696	\$ 2,030	\$ -	\$ 73,726
Construction in Progress	148,100	-	(94,100)	54,000
Building and Improvements	3,031,485	406,675	(77,029)	3,361,131
Equipment	4,504,571	147,720	(4,690)	4,647,601
Lease Asset - Equipment	-	221,220	-	221,220
Total Capital and Lease Assets	<u>7,755,852</u>	<u>777,645</u>	<u>(175,819)</u>	<u>8,357,678</u>
Accumulated Depreciation and Amortization	<u>(6,416,162)</u>	<u>(307,578)</u>	<u>126,480</u>	<u>(6,597,260)</u>
Capital and Lease Assets, Net	<u>\$ 1,339,690</u>	<u>\$ 470,067</u>	<u>\$ (49,339)</u>	<u>\$ 1,760,418</u>

Depreciation expense for the years ended December 31, 2023 and 2022 totaled \$355,447 and \$307,578, respectively.

NOTE 9 – LONG-TERM DEBT AND LEASE LIABILITIES

Following is a summary of long-term debt and lease liabilities at December 31, 2023 and 2022:

	Balance 12/31/2022	Additions	Reductions	Balance 12/31/2023	Due Within One Year
Notes Payable:					
Note Payable #1	\$ 28,831	\$ -	\$ (28,831)	\$ -	\$ -
Lease Liabilities:					
Lease Equipment:					
Pyxis Lease	<u>190,727</u>	<u>-</u>	<u>(41,954)</u>	<u>148,773</u>	<u>44,039</u>
Total Notes Payable and Lease Liabilities	<u>\$ 219,558</u>	<u>\$ -</u>	<u>\$ (70,785)</u>	<u>\$ 148,773</u>	<u>\$ 44,039</u>

**HARDEMAN COUNTY HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2023 AND 2022**

NOTE 9 – LONG-TERM DEBT AND LEASE LIABILITIES (CONTINUED)

	<u>Balance</u> <u>12/31/2021</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance</u> <u>12/31/2022</u>	<u>Due Within</u> <u>One Year</u>
Notes Payable:					
Note Payable #1	\$ 125,203	\$ -	\$ (96,372)	\$ 28,831	\$ 28,831
Lease Liabilities:					
Lease Equipment:					
Pyxis Lease	<u>-</u>	<u>220,000</u>	<u>(29,273)</u>	<u>190,727</u>	<u>43,453</u>
Total Notes Payable and Lease Liabilities	<u>\$ 125,203</u>	<u>\$ 220,000</u>	<u>\$ (125,645)</u>	<u>\$ 219,558</u>	<u>\$ 72,284</u>

The terms and due dates of the District’s long-term debt at December 31, 2023 and 2022 is as follows:

- Note Payable #1 – note payable to CPSI, bearing no interest, due in 84 monthly installments of \$8,031, collateralized by equipment. Note Payable #1 was paid in full in fiscal year 2023.
- Pyxis Lease – lease obligation bearing interest at 1.34%, due in 60 monthly installments of \$3,814, collateralized by leased equipment, matures on May 5, 2027.

Following is a schedule of maturities for lease liabilities for each of the next five years:

For the Year Ending December 31,	<u>Lease Liabilities</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2024	\$ 44,039	\$ 1,729	\$ 45,768
2025	44,633	1,135	45,768
2026	45,235	533	45,768
2027	<u>14,866</u>	<u>43</u>	<u>14,909</u>
Total	<u>\$ 148,773</u>	<u>\$ 3,440</u>	<u>\$ 152,213</u>

The amount of interest cost incurred in 2023 and 2022 was \$2,996 and \$2,127, respectively, all of which was charged to operations.

**HARDEMAN COUNTY HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2023 AND 2022**

NOTE 10 – 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 \$104,038 and \$92,974 and received \$299,056 and \$280,525 for the years ended December 31, 2023 and 2022, respectively. The District recognized revenue of \$195,018 and \$187,551 for the years ended December 31, 2023 and 2022, 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 11 – 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 \$229,247 and \$180,925 and received \$631,752 and \$624,407 for the years ended December 31, 2023 and 2022, respectively. The District recognized net revenue of \$402,505 and \$443,482 for the years ended December 31, 2023 and 2022, 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 \$283,376 and \$284,511 as of December 31, 2023 and 2022, respectively. As part of the affiliation agreement, the District provided \$-0- and \$53,500 in funding to the program for the years ended December 31, 2023 and 2022, respectively.

**HARDEMAN COUNTY HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2023 AND 2022**

NOTE 11 – SECTION 1115 DEMONSTRATION WAIVER PROGRAM (CONTINUED)

Comprehensive Hospital Increase Reimbursement Program – The District participated in the Comprehensive Hospital Increase Reimbursement Program (“CHIRP”), one of four directed payment programs the Texas Health and Human Services submitted to the Centers for Medicare and Medicaid Services for approval as part of the Delivery System Reform Incentive Payment 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 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 \$23,175 and \$40,144 for the years ended December 31, 2023 and 2022, respectively.

Rural Access to Primary and Preventive Services – The District participated in the Rural Access to Primary and Preventive Services (“RAPPS”) Program, one of four directed payment programs the Texas Health and Human Services submitted to the Centers for Medicare and Medicaid Services for approval as part of the Delivery System Reform Incentive Payment Transition Plan. In year 1, the program will include two components:

- Component 1 provides a uniform dollar increase in the form of prospective, monthly payments to all participating RHCs to enhance structures that promote better access to primary and preventative services. The amount would vary by RHC class, and the structure measures would include reporting on electronic health record use, telemedicine/telehealth capabilities, and ensuring access to primary and preventative services.
- Component 2 will be a uniform percent rate increase for certain services based on achievement of quality metrics focused on preventative care and screening and management of chronic conditions.

This program is facilitated through the 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 \$48,136 and \$-0- for the years ended December 31, 2023 and 2022, respectively. The District recognized net revenue of \$52,123 and \$-0- for the years ended December 31, 2023 and 2022, respectively. The respective net revenue is included within net patient service revenue in the accompanying statements of revenues, expenses, and changes in net position.

**HARDEMAN COUNTY HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2023 AND 2022**

NOTE 12 – 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 2023 and 2022, 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 13 – 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, 2023 and 2022 were \$116,207 and \$111,831, respectively. Employer contributions to the plan were \$55,116 and \$53,110 for the years ended December 31, 2023 and 2022.

NOTE 14 – COMMITMENTS AND CONTINGENCIES

Litigation – The District is a unit of government covered by the Texas Tort Claims Acts which, by statute, limits its liability to \$100,000 per person/\$300,000 per occurrence. These limits coincide with the malpractice insurance coverage maintained by the District. The District, from time to time, may be subject to claims and suits for other damages as well. In the opinion of management, the ultimate resolution of the above types of legal proceedings will not have a material effect on the District’s financial position or results of operations.

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, 2023 and 2022. At December 31, 2023 and 2022, management recorded an estimated recoupment liability of \$-0- and \$232,000, respectively. The recoupment liability is included in other accrued liabilities in the accompanying statements of net position.

**HARDEMAN COUNTY HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2023 AND 2022**

NOTE 15 – 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, 2023 and 2022 of \$620,601 and \$664,800, 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, 2023 and 2022, the District recorded a 340B drug program receivable of \$7,310 and \$32,651, respectively. The receivable is included in prepaid expenses and other current assets in the accompanying statements of net position.

NOTE 16 – FEDERAL 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 \$-0- and \$33,251 for the years ended December 31, 2023 and 2022, respectively.

**HARDEMAN COUNTY HOSPITAL DISTRICT
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
 DECEMBER 31, 2023 AND 2022**

NOTE 16 – FEDERAL FINANCIAL ASSISTANCE (CONTINUED)

- **Rural Health Clinic Testing and Mitigation** – 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”). In connection with this program, the District received \$-0- and \$200,000 in Rural Testing and Mitigation Relief Funds for the years ended December 31, 2023 and 2022, respectively. The District is to use the funding to reimburse for COVID-19 testing and mitigation requirements, including purchasing supplies (such as test kits and other testing supplies).

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:

Period	Payment Received Period	Period of Availability for Eligible Expenses	Period of Availability for Lost Revenues
1	April 10, 2020 through June 30, 2020	January 1, 2020 through June 30, 2021	January 1, 2020 through June 30, 2021
2	July 1, 2020 through December 31, 2020	January 1, 2020 through December 31, 2021	January 1, 2020 through December 31, 2021
3	January 1, 2021 through June 30, 2021	January 1, 2020 through June 30, 2022	January 1, 2020 through June 30, 2022
4	July 1, 2021 through December 31, 2021	January 1, 2020 through December 31, 2022	January 1, 2020 through December 31, 2022
5	January 1, 2022 through June 30, 2022	January 1, 2020 through June 30, 2023	January 1, 2020 through June 30, 2023
6	July 1, 2022 through December 31, 2022	January 1, 2020 through December 31, 2023	January 1, 2020 through June 30, 2023
7	January 1, 2023 through June 30, 2023	January 1, 2020 through June 30, 2024	January 1, 2020 through June 30, 2023
8	July 1, 2023 through December 31, 2023	January 1, 2020 through December 31, 2024	January 1, 2020 through June 30, 2023
9	January 1, 2024 through June 30, 2024	January 1, 2020 through June 30, 2025	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.

**HARDEMAN COUNTY HOSPITAL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2023 AND 2022**

NOTE 16 – FEDERAL FINANCIAL ASSISTANCE (CONTINUED)

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 \$255,561 for the years ended December 31, 2023 and 2022, respectively. For the years ended December 31, 2023 and 2022, management recognized \$104,053 and \$151,508, respectively, in RHCCTM program revenue.

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 recognized \$-0- and \$76,701 for the years ended December 31, 2023 and 2022, 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 \$365,345 in Tier 1 and Tier 2 funds, respectively. For the years ended December 31, 2023 and 2022, the District recognized \$262,193 and \$355,152, respectively, in SLFRF revenue.

NOTE 17 – SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2023, the date of the most recent statements of net position, have been evaluated for possible adjustment to the financial statements or disclosure is May 21, 2024, 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, 2023 and 2022, and our report thereon dated May 21, 2024, 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.

D & Co., LLP

D & Co., L.L.P.
Lubbock, Texas
May 21, 2024

**HARDEMAN COUNTY HOSPITAL DISTRICT
NET PATIENT SERVICE REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
Routine Services:		
Routine Services	\$ 483,076	\$ 407,603
Ancillary and Other Services		
Inpatient:		
Operating Room	-	1,769
Radiology and Nuclear Medicine	48,196	37,366
Laboratory	165,435	159,883
Respiratory Therapy	45,166	65,248
Physical Therapy	99,828	98,231
Speech Therapy	11,199	10,032
Electrocardiology	1,360	1,520
Central Supply	7,521	9,660
Pharmacy	272,695	295,294
Emergency	320	265
Observation	805	371
Total Inpatient Ancillary Services	<u>652,525</u>	<u>679,639</u>
Outpatient:		
Radiology and Nuclear Medicine	1,403,791	1,351,652
Laboratory	1,917,622	2,012,066
Respiratory Therapy	24,707	26,136
Physical Therapy	1,114,056	1,130,401
Speech Therapy	157,589	156,680
Electrocardiology	47,120	46,000
Central Supply	40,640	37,136
Pharmacy	1,799,203	1,118,220
Geri-Psych	1,087,882	1,139,176
Foard County Rural Health Clinic	217,809	186,025
Hardeman County Rural Health Clinic	1,221,880	1,268,852
Emergency Room	1,134,294	1,001,669
Observation	45,122	48,041
340B Revenue	620,601	664,800
Total Outpatient Ancillary Services	<u>10,832,316</u>	<u>10,186,854</u>
Gross Patient Revenue	<u>\$ 11,967,917</u>	<u>\$ 11,274,096</u>

See independent auditor's report on other financial information.

**HARDEMAN COUNTY HOSPITAL DISTRICT
NET PATIENT SERVICE REVENUE AND OTHER OPERATING REVENUE
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
Gross Patient Revenue	\$ 11,967,917	\$ 11,274,096
Deductions from Revenue:		
Charity	(896,843)	(954,072)
Third-Party Contractual Adjustments	(830,034)	(408,451)
Provision for Bad Debts	(499,276)	(415,774)
Medicaid Supplemental Payments and Other Credits	<u>597,523</u>	<u>631,033</u>
Total Deductions from Revenue	<u>(1,628,630)</u>	<u>(1,147,264)</u>
Net Patient Service Revenue	<u>\$ 10,339,287</u>	<u>\$ 10,126,832</u>
Other Operating Revenue:		
Sale of Non-Patient Meals	\$ 30,468	\$ 16,702
Medical Records	1,637	1,953
Foard County Subsidy	-	15
Miscellaneous	<u>18,829</u>	<u>37,030</u>
Total Other Operating Revenue	<u>\$ 50,934</u>	<u>\$ 55,700</u>

See independent auditor's report on other financial information.

**HARDEMAN COUNTY HOSPITAL DISTRICT
 OPERATING EXPENSES
 FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
Routine Services	\$ 1,745,835	\$ 1,699,403
Ancillary Services:		
Radiology and Nuclear Medicine	397,435	367,646
Laboratory	919,332	878,547
Respiratory Therapy	29,941	27,102
Physical Therapy	766,156	775,721
Speech Therapy	92,173	93,920
Medical Supplies Charged to Patients	114,547	117,823
Drugs Charged to Patients	1,522,667	1,427,990
Geri Psych	350,700	327,226
Foard County Rural Health Clinic	196,745	217,068
Hardeman County Rural Health Clinic	1,190,664	1,308,111
Emergency	877,053	791,277
Ambulance	4,406	2,405
Total Ancillary Services	<u>6,461,819</u>	<u>6,334,836</u>
General Services:		
Operation and Plant	358,793	297,396
Laundry and Linen	30,188	30,499
Housekeeping	182,526	146,716
Dietary	211,258	188,917
Total General Services	<u>782,765</u>	<u>663,528</u>

See independent auditor's report on other financial information.

**HARDEMAN COUNTY HOSPITAL DISTRICT
OPERATING EXPENSES
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022**

	<u>2023</u>	<u>2022</u>
Administrative Services:		
Salaries and Wages	\$ 523,668	\$ 527,649
Other Operating	78,199	89,701
Employee Benefits	911,512	844,463
Supplies	27,986	57,550
Medical Records	140,190	131,737
Rental Expense	3,367	3,768
Contracted and Purchased Services	70,486	203,808
Travel and Education	10,051	12,568
Insurance	123,287	101,856
Legal and Accounting Fees	60,763	26,757
Utilities	13,316	31,128
Advertising	12,674	8,211
Physician Recruitment	44,410	31,798
Repairs and Maintenance	387,197	311,912
Dues and Subscriptions	12,370	2,947
Collection Fees	5,423	5,248
Miscellaneous	<u>12,311</u>	<u>4,730</u>
Total Administrative Services	2,437,210	2,395,831
Depreciation	<u>355,447</u>	<u>307,578</u>
Total Operating Expenses	<u><u>\$ 11,783,076</u></u>	<u><u>\$ 11,401,176</u></u>

See independent auditor's report on other financial information.

