# DALLAM-HARTLEY COUNTIES HOSPITAL DISTRICT

## DALHART, TEXAS

## AS OF AND FOR THE YEARS ENDED JULY 31, 2020 AND 2019

# INDEPENDENT AUDITOR'S REPORT

To the Board of Directors and Management
Dallam-Hartley Counties Hospital District
Dalhart, Texas

We have audited the accompanying combined financial statements of Dallam-Hartley Counties Hospital District and Dallam-Hartley Counties Healthcare Foundation, Inc., a component unit of Dallam-Hartley Counties Hospital District (collectively referred to as the "District"), as of and for the years ended July 31, 2020 and 2019, and the related notes to the combined financial statements, which collectively comprise the District's combined statements of net position, and the related combined statements of revenues, expenses and changes in net position and the combined statements of cash flows for the years then ended and the related notes to the combined financial statements.

## Management's Responsibility for the Combined Financial Statements

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

## Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free from material misstatement.

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

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

**Opinions**

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Dallam-Hartley Counties Hospital District and Dallam-Hartley Counties Healthcare Foundation Inc., a component unit of Dallam-Hartley Counties Hospital District, as of July 31, 2020 and 2019, and the changes in its combined financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

**Other Matter**

*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 combined financial statements. Such information, although not a part of the basic combined 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 combined 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 combined financial statements, and other knowledge we obtained during our audit of the basic combined 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.

**Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated April 21, 2021, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Durbin & Company, L.L.P.

Durbin & Company, L.L.P.
Lubbock, Texas
April 21, 2021

# DALLAM-HARTLEY COUNTIES HOSPITAL DISTRICT

# DALHART, TEXAS

## MANAGEMENT'S DISCUSSION AND ANALYSIS

## AS OF AND FOR THE YEARS ENDED JULY 31, 2020 AND 2019

**DALLAM-HARTLEY COUNTIES HOSPITAL DISTRICT**
**MANAGEMENT'S DISCUSSION AND ANALYSIS**
**JULY 31, 2020 AND 2019**

**UNAUDITED**

Our discussion and analysis of Dallam-Hartley Counties Hospital District and Dallam-Hartley Counties Healthcare Foundation, Inc.'s (the "District") combined financial performance provides an overview of the District's combined financial activities for the fiscal years ended July 31, 2020 and 2019. Please read it in conjunction with the District's combined financial statements, which begin on page 1.

## FINANCIAL HIGHLIGHTS

- The District's combined net position increased by $6,527,954 or 333.5% in 2020, and decreased by $632,506 or 24.4% in 2019.
- Net patient service revenue increased in 2020 by $1,578,728 or 7.3%, and increased in 2019 by $820,004 or 3.9%.
- The District reported a combined operating loss of $2,007,525 and $3,919,505 in 2020 and 2019, respectively. The operating loss in 2020 had a favorable decrease of $1,911,980 over the operating loss reported in 2019.

## USING THIS ANNUAL REPORT

The District's combined financial statements consist of three statements, a Combined Statement of Net Position; a Combined Statement of Revenues, Expenses, and Changes in Net Position; and a Combined Statement of Cash Flows. These combined 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 Combined Statements of Net Position and Combined Statements 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 Combined Statements of Net Position and the Combined Statements 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 combined statements include all restricted and unrestricted assets, deferred outflows of resources, all liabilities, and deferred inflows of resources 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 combined statements report the District's combined net position and changes in them. You can think of the District's combined net position—the difference between assets, deferred outflows of resources, 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 combined 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 Combined Statements of Cash Flows

The final required statement is the Combined Statements 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 COMBINED NET POSITION

The District's combined net position is the difference between its assets, deferred outflows of resources, liabilities, and deferred inflows of resources reported in the Combined Statement of Net Position on page 2. The District's combined net position increased by $6,527,954 or 333.5% in 2020, and decreased by $632,506 or 24.4% in 2019, as you can see from **Table 1**.

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

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Assets and Deferred Outflows of Resources: | | | |
| Current Assets | $ 15,361,831 | $ 7,898,101 | $ 6,677,188 |
| Capital Assets (Net) | 8,459,496 | 8,534,548 | 9,615,242 |
| Other Non-Current Assets | 54,966 | 124,820 | 124,058 |
| Total Assets | 23,876,293 | 16,557,469 | 16,416,488 |
| Deferred Outflows of Resources | 70,195 | - | - |
| Total Assets and Deferred Outflows of Resources | $ 23,946,488 | $ 16,557,469 | $ 16,416,488 |
| Liabilities and Deferred Inflows of Resources: | | | |
| Long-Term Debt Outstanding | $ 7,984,578 | $ 6,340,504 | $ 7,363,970 |
| Other Current and Non-Current Liabilities | 3,811,144 | 8,259,595 | 6,462,642 |
| Total Liabilities | 11,795,722 | 14,600,099 | 13,826,612 |
| Deferred Inflows of Resources | 3,665,442 | - | - |
| Total Liabilities and Deferred Inflows of Resources | 15,461,164 | 14,600,099 | 13,826,612 |
| Net Position: | | | |
| Net Investment in Capital Assets | 2,205,316 | 2,194,044 | 2,710,158 |
| Unrestricted | 6,280,008 | (236,674) | (120,282) |
| Total Net Position | 8,485,324 | 1,957,370 | 2,589,876 |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | $ 23,946,488 | $ 16,557,469 | $ 16,416,488 |

## COMBINED OPERATING RESULTS AND CHANGES IN THE DISTRICT'S COMBINED NET POSITION

The District's combined net position increased by $6,527,954 or 333.5% in 2020, and decreased by $632,506 or 24.4% in 2019. This change is made up of different components, as you can see from **Table 2**.

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

| | 2020 | 2019 | 2018 |
|---|---|---|---|
| Operating Revenues: | | | |
| Net Patient Service Revenue | 23,169,239 | 21,590,511 | 20,770,507 |
| Delivery System Reform Incentive Program | 704,371 | 488,888 | 467,078 |
| Insurance Proceeds | - | - | 20,276 |
| Other Operating Revenue | 2,032,259 | 1,536,699 | 1,494,510 |
| Total Operating Revenue | 25,905,869 | 23,616,098 | 22,752,371 |
| Operating Expenses: | | | |
| Salaries and Benefits | 13,153,367 | 12,422,518 | 13,465,973 |
| Other Operating Expenses | 13,558,713 | 13,824,912 | 11,436,774 |
| Depreciation / Amortization | 1,201,314 | 1,288,173 | 1,462,721 |
| Total Operating Expenses | 27,913,394 | 27,535,603 | 26,365,468 |
| Operating Loss | (2,007,525) | (3,919,505) | (3,613,097) |
| Nonoperating Revenues and (Expenses): | | | |
| Tax Revenue and Subsidies From Counties and City | 3,250,515 | 3,008,166 | 2,801,707 |
| Community Benefit Support | 2,061,747 | 2,560,530 | 2,142,663 |
| Intergovernmental Transfer Expense | (1,548,259) | (1,984,188) | (1,674,067) |
| Noncapital Grants / Contributions | - | - | 1,075 |
| COVID-19 Federal Financial Assistance | 4,690,330 | - | - |
| Other Nonoperating Revenues (Expenses) | (361,580) | (361,560) | (302,727) |
| Total Nonoperating Revenues (Expenses) | 8,092,753 | 3,222,948 | 2,968,651 |
| Excess (Deficiency) of Revenues over Expenses Before Capital Grants and Contributions | 6,085,228 | (696,557) | (644,446) |
| Capital Grants and Contributions | 442,726 | 64,051 | 42,895 |
| Increase (Decrease) in Net Position | 6,527,954 | (632,506) | (601,551) |
| Net Position, Beginning of Year | 1,957,370 | 2,589,876 | 3,191,427 |
| Net Position, End of Year | $ 8,485,324 | $ 1,957,370 | $ 2,589,876 |

### Operating Income (Loss)

The first component of the overall change in the District's combined net position is its operating income (loss) – generally, the difference between net patient service revenue and the expenses incurred to perform those services. The District has reported a combined operating loss of $2,007,525 and $3,919,505 in 2020 and 2019, respectively.

The primary components of the decrease in operating loss in 2020 are:

- Other operating revenue increased by $495,560 or 32.2%.
- Delivery System Reform Incentive Program revenue increased by $215,483 or 44.1%.
- Net Patient Service Revenue increased by $1,578,728 or 7.3%.

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

- Professional Fees and Purchased Services increased by $2,062,263 or 32.9%.
- Supplies and other operating expenses increased by $325,875 or 6.3%.

### Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of property taxes levied by the District along with subsidies from the Dallam and Hartley Counties and the City of Dalhart, rents and royalties, noncapital grants and contributions, interest income and interest expense, community benefit support and the related intergovernmental transfer expense. Tax revenue and subsidies from the county and city were $3,250,515 and $3,008,166 in 2020 and 2019, respectively.

### Grants, Contributions, and Endowments

The District occasionally receives both grants from the state as well as contributions from individuals and private organizations. The District recognized capital grant revenue in the amount of $442,726 and $64,051 in 2020 and 2019, respectively.

## THE DISTRICT'S COMBINED CASH FLOWS

Changes in the District's cash flows are consistent with changes in operating income/loss and nonoperating revenues and expenses as discussed earlier.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

As of July 31, 2020 and 2019, the District had $8,389,301 and $8,534,548, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 7 of the audited combined financial statements. The District acquired capital assets in the amount of $1,198,670 and $364,102 in 2020 and 2019, respectively, while depreciation expense totaled $1,201,314 and $1,288,173, respectively.

### Debt

As of July 31, 2020 and 2019, the District had $7,984,578 and $9,027,504, respectively, in notes payable and long-term debt outstanding, as detailed in Notes 9 and 10 of the audited combined financial statements. During fiscal years 2020 and 2019, the District made payments of $11,122,648 and $3,592,213, respectively, on outstanding debt.

## CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This combined 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 the Administration office at Coon Memorial Hospital, P.O. Box 2014, Dalhart, Texas, 79022.

# DALLAM-HARTLEY COUNTIES HOSPITAL DISTRICT

# DALHART, TEXAS

## COMBINED FINANCIAL STATEMENTS

## AS OF AND FOR THE YEARS ENDED JULY 31, 2020 AND 2019

## DALLAM-HARTLEY COUNTIES HOSPITAL DISTRICT

## COMBINED STATEMENTS OF NET POSITION

## AS OF JULY 31, 2020 AND 2019

| **ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:** | 2020 | 2019 |
|---|---|---|
| CURRENT ASSETS | | |
| Cash and Cash Equivalents | $ 9,481,500 | $ 664,220 |
| Assets Whose Use is Limited | 91,130 | 131,567 |
| Patient Accounts Receivable, Net of Allowance | 3,040,326 | 4,121,833 |
| Estimated Third-Party Payor Settlements | 208,509 | 575,340 |
| Other Receivables | 154,033 | 163,877 |
| Inventory of Supplies | 458,139 | 413,941 |
| Prepaid and Other Current Assets | 1,904,629 | 1,809,544 |
| Property Taxes Receivable | 23,565 | 17,779 |
| Total Current Assets | 15,361,831 | 7,898,101 |
| ASSETS WHOSE USE IS LIMITED | 125,161 | 124,820 |
| CAPITAL ASSETS, Net of Accumulated Depreciation | 8,389,301 | 8,534,548 |
| Total Assets | 23,876,293 | 16,557,469 |
| DEFERRED OUTFLOWS OF RESOURCES | 70,195 | - |
| Total Assets and Deferred Outflows of Resources | $ 23,946,488 | $ 16,557,469 |

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

**DALLAM-HARTLEY COUNTIES HOSPITAL DISTRICT**

**COMBINED STATEMENTS OF NET POSITION**

**AS OF JULY 31, 2020 AND 2019**

| **LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION:** | 2020 | 2019 |
|---|---|---|
| CURRENT LIABILITIES | | |
| Accounts Payable | $ 1,929,583 | $ 3,577,965 |
| Accrued Payroll, Benefits, and Related Liabilities | 581,660 | 887,618 |
| Notes Payable | - | 2,687,000 |
| Current Portion of Long-Term Debt | 864,522 | 647,188 |
| Other Accrued Liabilities | 819,901 | 717,012 |
| Total Current Liabilities | 4,195,666 | 8,516,783 |
| NONCURRENT LIABILITIES | | |
| Long-Term Debt, Net of Current Portion | 7,120,056 | 5,693,316 |
| Self Funded Malpractice | 480,000 | 390,000 |
| Total Noncurrent Liabilities | 7,600,056 | 6,083,316 |
| Total Liabilities | 11,795,722 | 14,600,099 |
| DEFERRED INFLOWS OF RESOURCES | 3,665,442 | - |
| NET POSITION | | |
| Net Investment in Capital Assets | 2,205,316 | 2,194,044 |
| Unrestricted | 6,280,008 | (236,674) |
| Total Net Position | 8,485,324 | 1,957,370 |
| Total Liabilities, Deferred Inflows of Resources, and Net Position | $ 23,946,488 | $ 16,557,469 |

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

**DALLAM-HARTLEY COUNTIES HOSPITAL DISTRICT**

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

**AS OF AND FOR THE YEARS ENDED JULY 31, 2020 AND 2019**

| | 2020 | 2019 |
|---|---|---|
| OPERATING REVENUES: | | |
| Net Patient Service Revenue | 23,169,239 | 21,590,511 |
| Delivery System Reform Incentive Program | 704,371 | 488,888 |
| Other Operating Revenue | 2,032,259 | 1,536,699 |
| Total Operating Revenues | 25,905,869 | 23,616,098 |
| OPERATING EXPENSES: | | |
| Salaries and Wages | 10,707,423 | 10,103,844 |
| Employee Benefits and Payroll Taxes | 2,445,944 | 2,318,674 |
| Professional Fees and Purchased Services | 8,200,585 | 8,328,095 |
| Supplies and Other | 5,358,128 | 5,496,817 |
| Depreciation and Amortization | 1,201,314 | 1,288,173 |
| Total Operating Expenses | 27,913,394 | 27,535,603 |
| Operating Loss | (2,007,525) | (3,919,505) |
| NONOPERATING REVENUES (EXPENSES): | | |
| Tax Revenue and Subsidies From Counties and City | 3,250,515 | 3,008,166 |
| Tobacco Settlement | 59,398 | 59,549 |
| COVID-19 Federal Financial Assistance | 4,690,330 | - |
| Community Benefit Support | 2,061,747 | 2,560,530 |
| Intergovernmental Transfer Expense | (1,548,259) | (1,984,188) |
| Investment Income | 8,852 | 19 |
| Rents and Royalties | 29,254 | 64,289 |
| Interest Expense | (378,000) | (477,544) |
| Loss on Disposal of Assets | (81,084) | (7,873) |
| Total Nonoperating Revenues (Expenses) | 8,092,753 | 3,222,948 |
| Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Contributions | 6,085,228 | (696,557) |
| Capital Grants and Contributions | 442,726 | 64,051 |
| Increase (Decrease) in Net Position | 6,527,954 | (632,506) |
| Net Position, Beginning of Year | 1,957,370 | 2,589,876 |
| Net Position, End of Year | $ 8,485,324 | $ 1,957,370 |

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

**DALLAM-HARTLEY COUNTIES HOSPITAL DISTRICT**

**COMBINED STATEMENTS OF CASH FLOWS**

**AS OF AND FOR THE YEARS ENDED JULY 31, 2020 AND 2019**

| | 2020 | 2019 |
|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Receipts From and on Behalf of Patients | $ 28,455,824 | $ 20,578,551 |
| Payments to Suppliers and Contractors | (13,163,197) | (9,518,794) |
| Payments to Employees | (13,632,325) | (12,471,496) |
| Other Receipts and Payments, Net | 2,746,474 | 2,169,646 |
| Net Cash Provided by Operating Activities | 4,406,776 | 757,907 |
| CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES: | | |
| Proceeds From Property Taxes and Subsidies From Counties and City | 3,244,729 | 3,012,023 |
| Tobacco Settlement | 59,398 | 59,549 |
| COVID-19 Federal Financial Assistance | 4,690,330 | - |
| Payments for Intergovernmental Transfers | (1,582,230) | (2,426,777) |
| Principal Payments on Long-Term Debt and Notes Payable | (9,732,879) | (2,935,497) |
| Proceeds From Long-Term Debt and Notes Payable | 8,846,472 | 2,937,000 |
| Interest Payments on Long-Term Debt and Notes Payable | (93,416) | (122,140) |
| Net Cash Provided by Noncapital Financing Activities | 5,432,404 | 524,158 |
| CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES: | | |
| Capital Grants and Contributions | 534,850 | 64,051 |
| Proceeds from Issuance of Long-Term Debt and Notes Payable | 1,048,000 | - |
| Principal Payments on Long-Term Debt and Notes Payable | (1,389,769) | (656,716) |
| Interest Payments on Long-Term Debt and Notes Payable | (341,083) | (356,710) |
| Proceeds From Sale of Capital Assets | 61,320 | 148,750 |
| Purchase of Capital Assets | (1,013,420) | (271,966) |
| Net Cash Used by Capital and Related Financing Activities | (1,100,102) | (1,072,591) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Investment Earnings | 38,106 | 64,308 |
| Net Increase in Cash and Cash Equivalents | 8,777,184 | 273,782 |
| Cash and Cash Equivalents, Beginning of Year | 920,607 | 646,825 |
| Cash and Cash Equivalents, End of Year | $ 9,697,791 | $ 920,607 |

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

**DALLAM-HARTLEY COUNTIES HOSPITAL DISTRICT**

**COMBINED STATEMENS OF CASH FLOWS (CONTINUED)**

**AS OF AND FOR THE YEARS ENDED JULY 31, 2020 AND 2019**

| | 2020 | 2019 |
|---|---|---|
| RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE COMBINED STATEMENTS OF NET POSITION: | | |
| Cash and Cash Equivalents Presented Under the Following Titles: | | |
| Cash and Cash Equivalents | $ 9,481,500 | $ 664,220 |
| Assets Whose Use is Limited - Current | 91,130 | 131,567 |
| Assets Whose Use is Limited - Long Term | 125,161 | 124,820 |
| | $ 9,697,791 | $ 920,607 |
| RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES: | | |
| Operating Loss | $ (2,007,525) | $ (3,919,505) |
| Adjustments to Reconcile Operating Loss to Net Cash Flows Provided by Operating Activities: | | |
| Depreciation and Amortization | 1,201,314 | 1,288,173 |
| Provision for Bad Debts | 3,241,810 | 1,338,099 |
| Indigent Care Support | 2,061,747 | 2,560,530 |
| (Increase) Decrease in: | | |
| Accounts Receivable | (2,160,303) | (1,802,343) |
| Estimated Third-Party Payor Settlements | 366,831 | (599,653) |
| Inventory of Supplies | (44,198) | 302,507 |
| Prepaid Expenses and Other Current Assets | (51,270) | 227,916 |
| Increase (Decrease) in: | | |
| Accounts Payable | (1,648,183) | 1,411,371 |
| Accrued Salaries and Benefits Payable | (305,958) | (241,793) |
| Self-Funded Malpractice | 90,000 | - |
| Other Accrued Liabilities | (2,931) | 192,605 |
| Deferred Inflows of Resources | 3,665,442 | - |
| Net Cash Provided by Operating Activities | $ 4,406,776 | $ 757,907 |
| SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES: | | |
| Capital Assets Acquired Under Capital Lease Obligations | $ 185,250 | $ 92,136 |

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

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization -** The Dallam-Hartley Counties Hospital District (the "District") was created for the primary purpose of owning and operating the Coon Memorial Hospital and Nursing Home, in order to furnish medical aid and hospital care to the indigent and needy persons residing within Dallam and Hartley counties. The District also operates the Dalhart Family Medical Clinic, High Country Rural Health Clinic, and Legacy Assisted Living facility. Historically, the District also owned and operated the Texline Clinic; however, this clinic terminated operations effective October 6, 2017. The District is governed by a seven member Board of Directors, elected by the commissioners' courts of Dallam and Hartley counties. The District's board of directors is empowered to manage and control the District, which includes the ability to levy taxes.

The Dallam-Hartley Counties Healthcare Foundation, Inc. (the "Foundation"), is a Texas 501(c)(3) non-profit health organization, established in October 2001 in order to promote support for Dallam-Hartley Counties Hospital District in the provision of healthcare. The District is the sole corporate member and both entities share a common board of directors. Due to this control, the Foundation is reported as a blended component unit of the District.

The District is the reporting entity for Coon Memorial Hospital and Nursing Home and the Richard and Katherine Coon Hospital Trust. By action of the District Court in Dalhart, Texas on May 1, 1980, the assets of the Richard and Katherine Coon Hospital Trust and the Richard Coon Hospital Estate were transferred to the Dallam-Hartley Counties Hospital District.

The accompanying combined financial statements include the accounts of Dallam-Hartley Counties Hospital District and Dallam-Hartley Counties Healthcare Foundation, Inc. (collectively referred to as the "District") using the blending method. Transactions and balances between the Hospital and Foundation have been eliminated in the combination.

**Enterprise Fund Accounting** – The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. The District has elected to apply the provisions based on Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement.* The District has also elected to apply the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* and Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*.

**Use of Estimates** – The preparation of combined financial 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 combined 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

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

**Assets Whose Use is Limited** – Assets whose use is limited include assets set aside by the board of directors to cover self-funded malpractice insurance liabilities. Amounts required to meet current liabilities of the District are reclassified in the combined statements of net position, when applicable.

**Inventory of Supplies** – Inventory is stated at historical cost on the First-In, First-Out (FIFO) method.

**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 expense and contractual adjustments, and reduced by write-offs, net of recoveries.

**Capital Assets** – Capital assets are recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. 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. Such amortization is included in depreciation and amortization in the combined financial statements. 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 | 5 to 30 years |
| Major Moveable Equipment | 3 to 20 years |

**Deferred Outflows/Inflows of Resources** – Transactions not meeting the definition of an asset or liability that result in the consumption or acquisition of net position in one period that are applicable to future periods are reported as deferred outflows of resources and deferred inflows of resources, respectively.

**Net Position** – The combined net position of the District is classified in three components: net investment in capital assets; restricted; and unrestricted. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets or the restricted component of net position.

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

**Charity Care –** The District provides care to patients who are uninsured, underinsured, ineligible for any government health care benefit program, and who are unable to pay for their care under its charity care policy without charge or at a discount. Management's policy for determination of financial need of charity care is to request the patient, or the patient's guarantor, to complete an application, where they supply personal and financial information and any other pertinent information to determine if the patient is financially indigent. The hospital will also use external publicly available data sources to determine ability to pay, will make reasonable efforts to explore appropriate alternative sources of payment and coverage from payment programs, as well as assist patients to apply for such programs, will review patient's outstanding accounts receivable and payment history, and take into account the patient's available assets and all other financial resources available to them. Outstanding medical bills are used to determine if a patient is medically indigent. Because the District does not pursue collection of amounts determined to qualify as charity care, charity care is excluded from net patient revenue.

**Compensated Absences –** District policies permit most employees to accumulate vacation benefits that may be realized as paid time-off. Expense and the related liability are recognized as paid time-off when the benefits are earned. Compensated absence liabilities are computed using regular pay and termination pay rates in effect at the combined statement of net position date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at the combined net position date.

**Operating Revenues and Expenses** – For purpose of display, the District's combined statements of revenues, expenses, and changes in net position distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the District's principal activity. Non-exchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

**Grants and Contributions –** From time to time, the District receives contributions from individuals and private organizations. Revenues from contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

**Risk Management –** The District is exposed to various risks of loss from torts: medical malpractice, theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disaster; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters; except medical malpractice claims as discussed in Note 17. Settled claims have not exceeded the commercial coverage in any of the three preceding years. The District is also partially self-insured for a portion of its exposure to risk of loss from employee health claims. An annual estimated provision is accrued for the self-funded portion of employee health claims and includes an estimate of the ultimate cost for both reported claims and claims incurred but not yet reported.

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

**Federal Income Taxes** – The District is a governmental entity; therefore, no expense has been provided for income taxes in the accompanying combined financial statements. The Foundation is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Foundation evaluates and accounts for uncertain tax positions in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 740, Income Taxes (formerly FASB Interpretation 48 (FIN 48) Accounting for Uncertainty in Income Taxes). This standard requires certain disclosures about uncertain income tax positions. The Foundation evaluates any uncertain tax positions using the provisions of ASC 450, Contingencies. As a result, management does not believe that any uncertain tax positions currently exist and no loss contingency has been recognized in the accompanying combined financial statements. The Foundation has filed all applicable tax returns. The Foundation's Forms 990, *Return of Organization Exempt from Income Tax,* are subject to routine audits by taxing jurisdictions; however, there are currently no audits in progress for any tax periods.

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

**Reclassifications** – Certain amounts in the 2019 combined financial statements have been reclassified to conform to the 2020 combined financial statement presentation. These reclassifications had no effect on the combined change in net position.

**Newly Adopted Accounting Pronouncements:**

**GASB Statement No. 88** – In April 2018, the Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Statement is effective for reporting periods beginning after June 15, 2019. The implementation of this statement had no effect on the change in net position.

**Pending Adoption of Recent Accounting Pronouncements:**

**GASB Statement No. 87** – In June 2017, the 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 December 15, 2021. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

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

**GASB Statement No. 89** – In June 2018, the 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 (1) to enhance the relevance and comparability of information about capital assets and the cost borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The Statement is effective for reporting periods beginning after December 15, 2020. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

**GASB Statement No. 90** – In June 2018, GASB issued GASB Statement No. 90 – *Majority Equity Interests*. The objective of this Statement is to improve the consistency and comparability of reporting a government's majority equity interest in a legally separate organization and to improve the relevance of financial statement information for certain component units. It defines a majority equity interest and specifies that a majority equity interest in a legally separate organization should be reported as an investment if a government's holding of the equity interest meets the definition of an investment. A majority equity interest that meets the definition of an investment should be measured using the equity fiduciary fund, or an endowment (including permanent and term endowments) or permanent fund. Those governments and funds should measure the majority equity interest at fair value. The Statement is effective for periods beginning after December 15, 2019. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

**GASB Statement No. 91** – Governmental Accounting Standards Board Statement No. 91 - *Conduit Debt Obligations*. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for periods beginning after December 15, 2021. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

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

- The effective date of GASB Statement No. 87, *Leases*;
- 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 GASB 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 Post-employment Benefit Plans Other Than Pension Plans, as amended, to reporting assets accumulated for postemployment benefits;
- The applicability of certain requirements of GASB Statement No. 84, Fiduciary Activities, to postemployment benefit arrangements;

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

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

### GASB Statement No. 92 (Continued):

- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition;
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers;
- Reference to nonrecurring fair value measurements of assets and liabilities in authoritative literature;
- Terminology used to refer to derivative instruments.

The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 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.

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

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

- The effective date for GASB Statement No. 87 has been postponed from reporting periods beginning after December 15, 2019 to reporting periods beginning after June 15, 2021.
- The effective date for GASB Statement No. 89 has been postponed from reporting periods beginning after December 15, 2019 to reporting periods beginning after December 15, 2020.
- The effective date for GASB Statement No. 91 has been postponed from reporting periods beginning after December 15, 2019 to reporting periods beginning after December 15, 2021.
- The effective date for GASB Statement No. 92 has been postponed from reporting periods beginning after June 15, 2020 to reporting periods beginning after June 15, 2021.

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

**Accounting Standards Update (ASU) No. 2017-09** – In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2019-09, Revenue from Contracts with Customers (Topic 606). ASU 2014-09 was implemented by the FASB to determine whether an entity should recognize revenue. An entity should recognize revenue to depict the transfers of promised goods and services to customers in an amount that reflects the consideration to which the entity expects to the entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal years beginning after December 15, 2019, with early implementation permitted. Management is currently evaluating the effects this pronouncement 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 for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

**Medicare and Medicaid** – The District is a Critical Access Hospital. Thus, 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.

**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 combined financial statements as they are determined by the District. Estimated third-party payor settlements recorded in current assets as of July 31, 2020 and 2019 are $208,509 and $575,340, respectively.

**Charity Care –** The value of charity care provided by the District based upon its established rates was $2,704,601 in 2020 and $3,414,557 in 2019. ASU 2010-23 requires charity care to be disclosed on a cost basis. The District utilizes the cost to charge ratios, as calculated based on its most recent cost reports, to determine the total cost. The District's cost of providing charity care was approximately $1,950,000 and $2,300,000 for the years ended July 31, 2020 and 2019, respectively.

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

Net patient service revenue is comprised as follows:

| | 2020 | 2019 |
|---|---|---|
| Routine Patient Services: | | |
| Hospital | $ 1,084,660 | $ 879,225 |
| Assisted Living | 924,047 | 862,393 |
| Nursing Home | 4,954,211 | 3,404,006 |
| Ancillary Patient Services: | | |
| Inpatient | 6,055,729 | 5,490,153 |
| Outpatient | 26,637,272 | 28,166,331 |
| Gross Patient Service Revenue | 39,655,919 | 38,802,108 |
| Deductions From Revenue: | | |
| Charity | (2,704,601) | (3,414,557) |
| Third-Party Contractual Adjustments | (13,108,439) | (13,142,159) |
| Provision for Bad Debts | (3,241,810) | (1,338,099) |
| Medicaid Supplemental Payments and Other Credits | 2,568,170 | 683,218 |
| Total Deductions From Revenue | (16,486,680) | (17,211,597) |
| Net Patient Service Revenue | $ 23,169,239 | $ 21,590,511 |

## NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

As of July 31, 2020 and 2019, the carrying amount of the District's deposits with financial institutions was $9,694,282 and $917,098, respectively, and the bank balance was $10,138,307 and $1,291,401, respectively. The bank balance is categorized as follows:

| | 2020 | 2019 |
|---|---|---|
| Amount insured by the FDIC | $ 590,790 | $ 482,764 |
| Amount collateralized with securities held by the pledging financial institution's trust department in the District's name | 9,547,517 | 808,637 |
| Total Bank Balance | $ 10,138,307 | $ 1,291,401 |

## NOTE 4 - PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable consist of the following at July 31:

| | 2020 | 2019 |
|---|---|---|
| Gross Accounts Receivable | $ 7,875,327 | $ 10,455,833 |
| Less Allowance for Bad Debts | (3,321,000) | (4,031,000) |
| Allowance for Contractuals | (1,514,001) | (2,303,000) |
| Accounts Receivable, Net of Allowance | $ 3,040,326 | $ 4,121,833 |

**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 July 31 is as follows:

| | 2020 | 2019 |
|---|---|---|
| Medicare | 15% | 21% |
| Medicaid | 3% | 3% |
| Other Third-Party Payors | 33% | 35% |
| Patients | 49% | 41% |
| Total | 100% | 100% |

## NOTE 5 – TAXES RECEIVABLE

Property taxes are levied on October 1 of each year and become delinquent as of February 1 of the following year. Property taxes are recognized as revenue in the year for which taxes have been levied and are reported net of collection expenses and fees. Total tax revenue for 2020 and 2019 net of appraisal fees of $95,799 and $86,298, was $3,142,515 and $2,895,566, respectively. Total subsidies from Dallam and Hartley counties and the City of Dalhart for 2020 and 2019 were $108,000 and $112,600, respectively.

As of July 31, 2020 and 2019, the balance of property taxes receivable and the related allowance for uncollectible taxes are as follows:

| | 2020 | 2019 |
|---|---|---|
| Taxes Receivable | $ 29,063 | $ 18,851 |
| Allowance for Uncollectible Taxes | (5,498) | (1,072) |
| Net Taxes Receivable | $ 23,565 | $ 17,779 |

## NOTE 6 - ASSETS WHOSE USE IS LIMITED

Assets whose use is limited consist of the following at July 31:

| | 2020 | 2019 |
|---|---|---|
| **Internally Designated for Self-Funded Malpractice Insurance:** | | |
| Cash and Cash Equivalents | $ 90,790 | $ 90,563 |
| **Internally Designated for Debt Service:** | | |
| Cash and Cash Equivalents | 125,501 | 165,824 |
| Total Assets Whose Use is Limited | 216,291 | 256,387 |
| Less: Current Portion | (91,130) | (131,567) |
| Total Assets Whose Use is Limited - Noncurrent | $ 125,161 | $ 124,820 |

## NOTE 7 – CAPITAL ASSETS

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

| | Balance 7/31/2019 | Additions | Reclass/ Retirements | Balance 7/31/2020 |
|---|---|---|---|---|
| Land | $ 191,977 | $ - | $ - | $ 191,977 |
| Land Improvements | 357,456 | - | - | 357,456 |
| Building and Improvements | 15,274,175 | 129,565 | 29,403 | 15,433,143 |
| Equipment | 16,782,573 | 883,855 | 1,326,655 | 18,993,083 |
| Capital Leases | 2,041,427 | 185,250 | (1,359,101) | 867,576 |
| R&K Coon Trust | 755,739 | - | - | 755,739 |
| Construction in Progress | 184,502 | - | (184,502) | - |
| Totals at Historical Cost | 35,587,849 | 1,198,670 | (187,545) | 36,598,974 |
| | | | | |
| Less: Accumulated Depreciation: | | | | |
| Land Improvements | (339,166) | (3,270) | 839 | (341,597) |
| Buildings and Improvements | (8,842,914) | (485,606) | (377,211) | (9,705,731) |
| Equipment | (16,010,738) | (598,276) | (245,886) | (16,854,900) |
| Capital Leases | (1,131,413) | (114,162) | 667,200 | (578,375) |
| R&K Coon Trust | (729,070) | - | - | (729,070) |
| Total Accumulated Depreciation | (27,053,301) | (1,201,314) | 44,942 | (28,209,673) |
| Capital Assets, Net | $ 8,534,548 | $ (2,644) | $ (142,603) | $ 8,389,301 |

## NOTE 7 – CAPITAL ASSETS (CONTINUED)

| | Balance 7/31/2018 | Additions | Reclass/ Retirements | Balance 7/31/2019 |
|---|---|---|---|---|
| Land | $ 191,977 | $ - | $ - | $ 191,977 |
| Land Improvements | 357,456 | - | - | 357,456 |
| Building and Improvements | 15,252,283 | 21,892 | - | 15,274,175 |
| Equipment | 16,919,472 | 173,575 | (310,474) | 16,782,573 |
| Capital Leases | 2,173,830 | 92,136 | (224,539) | 2,041,427 |
| R&K Coon Trust | 755,739 | - | - | 755,739 |
| Construction in Progress | 108,003 | 76,499 | - | 184,502 |
| Totals at Historical Cost | 35,758,760 | 364,102 | (535,013) | 35,587,849 |
| Less: Accumulated Depreciation: | | | | |
| Land Improvements | (332,271) | (6,895) | - | (339,166) |
| Buildings and Improvements | (8,353,092) | (489,822) | - | (8,842,914) |
| Equipment | (15,423,769) | (411,343) | (175,626) | (16,010,738) |
| Capital Leases | (1,305,316) | (380,113) | 554,016 | (1,131,413) |
| R&K Coon Trust | (729,070) | - | - | (729,070) |
| Total Accumulated Depreciation | (26,143,518) | (1,288,173) | 378,390 | (27,053,301) |
| Capital Assets, Net | $ 9,615,242 | $ (924,071) | $ (156,623) | $ 8,534,548 |

Construction in progress as of July 31, 2019 includes amounts related to equipment down payments and the nursing home expansion and renovation project. The final payments were made on the equipment and the assets were placed into service. The nursing home project was abandoned and the assets in construction in progress were expensed. The total amount written off of $108,003 is included within loss on disposal of assets in the combined statement of revenues, expenses and changes in net position.

## NOTE 8 – CAPITAL LEASE BUYOUT

On August 27, 2019, the District issued a $900,000 promissory note payable, as noted in Note 10, of which $796,025 was issued to buyout the MRI capital lease obligation. The remaining proceeds were used to purchase radiology equipment and to pay loan issuance costs. The difference between the reacquisition price and the net carrying amount of the old debt will be deferred and amortized as a component of interest expense in a systematic and rational manner over the remaining life of the old debt. The difference between the reacquisition price and the net carrying amount of the old debt is reported as a deferred outflow of resources. The District's deferred loss amortization period began September 1, 2019, the date of the capital lease buyout, and will be amortized over the remaining life of the old debt through July 1, 2022. As of July 31, 2020, the unamortized deferred loss on capital lease buyout is $70,195, and is included within deferred outflows of resources in the combined statements of net position. Additionally, the District amortized $32,175 for the year ended July 31, 2020. The respective expense is included within interest expense in the accompanying combined statements of revenues, expenses and changes in net position.

## NOTE 9 – NOTES PAYABLE

A summary of notes payable as of July 31, 2020 and 2019 follows:

| | Balance 7/31/2019 | Additions | Reductions | Balance 7/31/2020 |
|---|---|---|---|---|
| Notes Payable: | | | | |
| Bank Line of Credit (D) | $ 187,000 | $ - | $ (187,000) | $ - |
| Bank Line of Credit (E) | - | 4,183,674 | (4,183,674) | - |
| Bank Line of Credit (F) | 2,500,000 | 1,610,205 | (4,110,205) | - |
| Note Payable (G) | - | 498,000 | (498,000) | - |
| Note Payable (H) | - | 754,000 | (754,000) | - |
| Total Notes Payable | $ 2,687,000 | $ 7,045,879 | $ (9,732,879) | $ - |

| | Balance 7/31/2018 | Additions | Reductions | Balance 7/31/2019 |
|---|---|---|---|---|
| Notes Payable: | | | | |
| Bank Line of Credit (A) | $ 963,524 | $ 250,000 | $ (1,213,524) | $ - |
| Bank Line of Credit (B) | 513,087 | - | (513,087) | - |
| Bank Line of Credit (C) | 750,000 | - | (750,000) | - |
| Bank Line of Credit (D) | - | 187,000 | - | 187,000 |
| Bank Line of Credit (F) | - | 2,500,000 | - | 2,500,000 |
| Total Notes Payable | $ 2,226,611 | $ 2,937,000 | $ (2,476,611) | $ 2,687,000 |

*Notes Payable.* The terms and due dates of the District's notes payable at July 31, 2020 and 2019 are as follows:

A. Line of credit dated August 1, 2017 with a maximum borrowing amount of $1,950,000 with interest at 4.5%. Payments are due on demand, but if no demand is made, principal and interest are due August 1, 2018. The line of credit was re-financed with line of credit (D) on September 11, 2018 into line of credit (F). Secured by accounts receivable.

B. Line of credit dated January 2, 2018 with a maximum borrowing amount of $1,500,000 with interest at 5.0%. Payments are due on demand, but if no demand is made, principal and interest are due August 28, 2018. Line of credit paid in full during fiscal year 2019. Secured by accounts receivable, inventory and equipment.

## NOTE 9 – NOTES PAYABLE (CONTINUED)

C. Line of credit dated June 21, 2018 with a maximum borrowing amount of $750,000 with interest at 5.0%. Payments are due on demand, but if no demand is made, principal and interest are due August 1, 2018. Secured by accounts receivable, inventory and property tax revenue. The line of credit was re-financed with line of credit (B) on September 11, 2018 into line of credit (F).

D. Line of credit dated June 28, 2019 with a maximum borrowing amount of $187,000 with interest at 5.5%. Principal and interest are due August 15, 2019. The line of credit was paid in full August 8, 2019. Secured by accounts receivable, inventory and equipment.

E. Line of credit dated January 24, 2020 with a maximum borrowing amount of $2,500,000 with interest at 5.0%. Payments are due on demand, but if no demand is made, principal and interest are due October 15, 2020. The line of credit was paid in full July 16, 2020. Secured by accounts receivable, inventory and equipment.

F. Line of credit dated September 11, 2018 with a maximum borrowing amount of $2,900,000 with interest at 5.0% payable on demand. The line of credit was re-financed on March 15, 2019 with maximum borrowing amount of $2,500,000 carrying an interest rate of 5.5%. Payments are due on demand, but if no demand is made, principal and interest are due October 15, 2019. Secured by accounts receivable, inventory and equipment. The line of credit was re-financed with line of credit (E) on January 24, 2020.

G. Bank Note: $498,000 short-term note dated September 6, 2019 with interest at 5.250%. Principal and interest are due September 30, 2019. Secured by accounts receivable, inventory, equipment, and property tax revenue. Paid in full during fiscal year 2020.

H. Bank Note: $754,000 short-term note dated September 6, 2019 with interest at 5.250%. Principal and interest are due December 31, 2019. Secured by accounts receivable, inventory, equipment, and property tax revenue. Paid in full during fiscal year 2020.

## NOTE 10 – LONG-TERM DEBT

A summary of long-term debt as of July 31, 2020 and 2019 follows:

| | Balance 7/31/2019 | Additions | Reductions | Balance 7/31/2020 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Long-Term Debt: | | | | | |
| Bonds Payable (A) | $ 3,180,000 | $ - | $ (158,000) | $ 3,022,000 | $ 165,000 |
| USDA/Assisted Living (B) | 1,885,000 | - | (44,000) | 1,841,000 | 46,000 |
| Bank Loan (D) | 192,105 | - | (45,704) | 146,401 | 47,943 |
| Bank Loan (E) | - | 148,000 | (19,255) | 128,745 | 47,878 |
| Bank Loan (I) | - | 900,000 | (180,206) | 719,794 | 168,813 |
| PPP Loan (J) | - | 1,800,593 | - | 1,800,593 | 228,377 |
| Total Long-Term Debt | 5,257,105 | 2,848,593 | (447,165) | 7,658,533 | 704,011 |
| Capital Lease Obligations: | | | | | |
| Siemens CT Scan Lease (F) | $ 80,207 | $ - | $ (50,315) | $ 29,892 | $ 29,892 |
| Cardiac Monitoring Sys (G) | 68,371 | - | (68,371) | - | - |
| Mandry Server (L) | 93,526 | - | (35,244) | 58,282 | 38,095 |
| MRI Machine (M) | 710,365 | - | (710,365) | - | - |
| Labsco FilmArray (N) | 51,961 | - | (16,532) | 35,429 | 17,308 |
| Siemens Ultrasound (O) | 78,969 | | (18,011) | 60,958 | 18,544 |
| ThermoFisher Lab Equipment (P) | - | 145,000 | (45,302) | 99,698 | 48,533 |
| Diagnostic Analyzer (Q) | - | 40,250 | 1,536 | 41,786 | 8,139 |
| Total Capital Lease Obligations | 1,083,399 | 185,250 | (942,604) | 326,045 | 160,511 |
| Total Long-Term Debt and Capital Lease Obligations | $ 6,340,504 | $ 3,033,843 | $ (1,389,769) | $ 7,984,578 | $ 864,522 |

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

| | Balance 7/31/2018 | Additions | Reductions | Balance 7/31/2019 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| Long-Term Debt: | | | | | |
| Bonds Payable (A) | $ 3,332,000 | $ - | $ (152,000) | $ 3,180,000 | $ 158,000 |
| USDA/Assisted Living (B) | 1,927,000 | - | (42,000) | 1,885,000 | 44,000 |
| Bank Loan (C) | 458,886 | - | (458,886) | - | - |
| Bank Loan (D) | 235,623 | - | (43,518) | 192,105 | 45,723 |
| Total Long-Term Debt | 5,953,509 | - | (696,404) | 5,257,105 | 247,723 |
| Capital Lease Obligations: | | | | | |
| Siemens CT Scan Lease (F) | 129,458 | - | (49,251) | 80,207 | 50,315 |
| Cardiac Monitoring Sys (G) | 151,950 | - | (83,579) | 68,371 | 68,371 |
| Portable X-Ray System (H) | 25,538 | - | (25,538) | - | - |
| Sonosite Ultrasound (K) | 10,483 | - | (10,483) | - | - |
| Mandry Server (L) | 126,132 | - | (32,606) | 93,526 | 35,244 |
| MRI Machine (M) | 899,149 | - | (188,784) | 710,365 | 210,993 |
| Labsco FilmArray (N) | 67,751 | - | (15,790) | 51,961 | 16,532 |
| Siemens Ultrasound (O) | - | 92,136 | (13,167) | 78,969 | 18,010 |
| Total Capital Lease Obligations | 1,410,461 | 92,136 | (419,198) | 1,083,399 | 399,465 |
| Total Long-Term Debt and Capital Lease Obligations | $ 7,363,970 | $ 92,136 | $ (1,115,602) | $ 6,340,504 | $ 647,188 |

*Long-Term Debt.* The terms and due dates of the District's long-term debt and capital lease obligations as of July 31, 2020 and 2019 are as follows:

A. Bonds Payable: General Obligation Bonds, Series 2013, carrying an interest rate of 4.0%, due in varying annual installment amounts, final payment due December 15, 2033, collateralized by ad valorem tax revenues.

B. USDA/Assisted Living Note: 4.25% due in varying installment amounts best adapted to making principal retirement and interest payments on revenue bonds, final payment due February 1, 2044. Collateralized by revenue bonds in the amount of $2,339,000 delivered to the USDA Rural Development office and a deed of trust.

## NOTE 10 – LONG TERM DEBT (CONTINUED)

*Long-Term Debt (Continued):*

C. Bank Loan: $800,000 promissory note dated April 6, 2016 with an interest rate of 4.0%, payable in two payments of $25,000 and a balloon payment of $750,000 on August 3, 2016. This loan was renewed on August 3, 2016 for a total amount of $1,322,792 with an interest rate of 4.0%, due in monthly installments of $39,039, final payment due July 30, 2019, collateralized by accounts receivable. Paid in full during fiscal year 2019.

D. Bank Loan: $238,930 promissory note dated June 1, 2018 with an interest rate of 4.75%, payable in monthly installments of $4,489, final payment due June 15, 2023, collateralized by accounts receivable, inventory and equipment.

E. Bank Loan: $148,000 promissory note dated February 28, 2020 with an interest rate of 5.00%, payable in monthly installments of $4,435, final payment due February 28, 2023, collateralized by accounts receivable, inventory and equipment.

I. Bank Loan: $900,000 promissory note dated August 23, 2019, issued as a current refunding, whereas, the proceeds were used to immediately pay the MRI capital lease buyout price, as noted in Note 8. The note carries an interest rate of 4.25%, payable in 5 annual payments of $199,488, final payment due February 23, 2024, collateralized by accounts receivable, inventory and equipment.

J. First State Bank Note dated June 26, 2020, for $1,800,593 at a 1.00% interest rate with monthly payments of $30,907 through May 26, 2025 with a balloon payment of $185,059 on June 26, 2025. Under Division A, Title 1, Section 1106 the loan will be fully forgiven as long as:
   - The loan proceeds are used to cover payroll costs, and most mortgage interest, rent, and utility costs over the 8-week period after the loan is made.
   - Employee and compensation levels are maintained.
   - Payroll costs are capped at $100,000 on an annualized basis for each employee.
   - At least 75% of the forgiven amount must be used for payroll.

   In the event the District does not comply with the Paycheck Protection Program (PPP) forgiveness requirements, they are responsible for repaying the note per the terms in the promissory note. The loan was forgiven in full in December 2020.

*Capital Leases.* The terms and due dates of the District's capital leases as of July 31, 2020 and 2019 are as follows:

F. Siemens CT Scan Lease: 2.14% capital lease obligation payable in monthly installments of $4,295 through January 23, 2021, collateralized by the leased equipment.

G. Cardiac Monitoring System: 7.53% capital lease obligation payable in monthly installments of $7,910 through April 3, 2020. Collateralized by the leased equipment. The capital lease obligation includes equipment with a cost of $283,729 and a five-year maintenance agreement with a cost of $117,412. Paid in full during fiscal year 2020.

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

H. Portable X-Ray System: 3.75% capital lease obligation payable in monthly installments of $3,733 through March 10, 2019, collateralized by the leased equipment. Paid in full during fiscal year 2019.

K. Sonosite Ultrasound: 3.90% capital lease obligation payable in monthly installments of $1,767 through January 1, 2019, collateralized by the leased equipment. Paid in full during fiscal year 2019.

L. Mandry Server: 7.81% capital lease obligation payable in monthly installments of $3,442 through January 26, 2022, collateralized by the leased equipment.

M. MRI Machine: 11.17% capital lease obligation payable in monthly installments of $23,315 through July 1, 2022, collateralized by the leased equipment. On August 23, 2019, the District obtained a loan (I) to obtain a buyout and paid the lease in full during fiscal year 2020.

N. FilmArray: 3.71% capital lease obligation payable in monthly installments of $1,548 through May 6, 2021, collateralized by the leased equipment.

O. Siemens Ultrasound: 2.969% capital lease obligation payable in monthly installments of $1,669 through July 2, 2023, collateralized by the leased equipment.

P. ThermoFisher Lab Equipment: Capital lease obligation payable in monthly installments of $3,876 through August 1, 2022, collateralized by the leased equipment.

Q. Diagnostic Analyzer: 10.694% capital lease obligation payable in monthly installments of $869 through March 6, 2026, collateralized by the leased equipment.

**Bonds, USDA/Assisted Living (B):** The Dallam-Hartley Counties Hospital District Revenue Bonds, Series 2004, were issued to finance upgrades to the assisted living facility. The bonds are secured by the revenue derived from the operations of the District. In accordance with the bond indenture, the following funds and insurance coverages are required:

**Revenue Fund:** All funds collected by the District shall be deposited into this account and then used to pay operating expenses and to transfer funds into the interest and sinking fund established by this bond agreement. During the year ended July 31, 2020 and 2019, the District had maintained a revenue fund in accordance with the bond indenture.

**Interest and Sinking Fund:** The District is to make monthly deposits into this fund for a total balance that equals the amount required to pay the interest and principal on the Series 2004 Bonds on the next ensuing payment date. The debt service cash is used to pay the scheduled interest and principal payments. As of July 31, 2020 and 2019, the District was in compliance with this provision of the bond indenture.

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

**Reserve Fund:** The District shall create a fund to accumulate and maintain funds as a reserve for the payment of bonds. These funds shall be transferred to the Interest and Sinking Fund. These funds shall be used solely for the payment of the principal and interest on the Bonds, when and to the extent other funds available for such purpose are insufficient, and may be used to retire the last of the Bonds outstanding. The District agrees to a monthly deposit to the Reserve Fund from the net revenues, $1/120^{th}$ of $12,172, being the required reserve which is the average annual debt service until the Reserve Fund contains a balance of $124,058. As of July 31, 2020 and 2019, the District's Reserve Fund had a balance of $125,161 and 124,820, respectively. As of July 31, 2020 and 2019, the District was in compliance with the bond indenture.

**Insurance Coverage:** The District is to be insured against risks, accidents, or casualties. The Series 2004 bond indentures also require the disclosure of property insurance coverage at fiscal year-end. The following table lists the property insurance coverage in effect as of July 31:

2020

| Insurer's Name | | Policy Amounts | Risk Covered | Policy's Expiration Date |
|---|---|---|---|---|
| Healthsure (Travelers) | $ | 164,225,000 | Real Property | March 31, 2021 |
| Healthsure (Travelers) | $ | 5,375,000 | Personal Property | March 31, 2021 |
| Healthsure (Travelers) | $ | 10,000,000 | Earth Movement | March 31, 2021 |
| Healthsure (Travelers) | $ | 11,000,000 | Flood | March 31, 2021 |

2019

| Insurer's Name | | Policy Amounts | Risk Covered | Policy's Expiration Date |
|---|---|---|---|---|
| Healthsure (Zurich) | $ | 33,357,730 | Real Property | March 31, 2020 |
| Healthsure (Zurich) | $ | 5,918,150 | Personal Property | March 31, 2020 |
| Healthsure (Zurich) | $ | 9,159,000 | Earth Movement | March 31, 2020 |
| Healthsure (Zurich) | $ | 9,159,000 | Flood | March 31, 2020 |

**General Obligation Bonds, Series 2013 (A):** The Dallam-Hartley Counties Hospital District General Obligation Bonds, Series 2013, were issued to finance the construction and renovation of the Emergency Department. The bonds are secured by the ad valorem tax revenue levied on property values within the District. In accordance with the bond indenture, the following fund is required:

**Interest and Sinking Fund:** The District is to establish and maintain an interest and sinking fund, which shall be kept separate from all other funds and accounts of the District. All ad valorem taxes levied and collected for and on account of the General Obligation, Series 2013 Bonds shall be deposited, as collected, into the Interest and Sinking Fund. As of July 31, 2020 and 2019, the District was in compliance with the provisions of the bond indenture.

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

The following is a schedule of principal payments on long-term debt and capital lease obligations and maturities on notes payable for each of the next five years.

| | Long-Term Debt | | Capital Lease Obligations | |
|---|---|---|---|---|
| For the Year | Principal | Interest | Principal | Interest |
| Ending July 31, | | | | |
| 2021 | $ 704,011 | $ 259,562 | $ 160,511 | $ 7,901 |
| 2022 | 851,980 | 234,193 | 112,081 | 4,113 |
| 2023 | 819,142 | 208,606 | 31,802 | 4,529 |
| 2024 | 824,891 | 187,709 | 16,472 | 1,255 |
| 2025 | 738,032 | 165,238 | 5,179 | 271 |
| 2026-2030 | 1,393,000 | 653,074 | - | - |
| 2031-2035 | 1,417,000 | 348,251 | - | - |
| 2036-2040 | 464,000 | 155,805 | - | - |
| 2041-2045 | 446,477 | 48,493 | - | - |
| Total | $ 7,658,533 | $ 2,260,931 | $ 326,045 | $ 18,069 |

The District follows the policy of capitalizing interest as a component of the cost of capital assets constructed for its own use. For the years ended July 31, 2020 and 2019, total interest cost incurred was $378,000 and $477,544, respectively, all of which was charged to operations.

## 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 $1,069,931 and $501,955, and received $2,940,675 and $1,198,424 for the years ended July 31, 2020 and 2019, respectively. Additionally, as of July 31, 2020 and 2019, the District recorded a payable of $10,000 and $213,000, respectively, for an overpayment recoupment discussed in Note 19. In 2019, the District recorded a payable of $234,022 in response to a demand notice from Texas Health and Human Services Commission (HHSC) for an overpayment of DY1 Uncompensated Care Funds due to incorrect reporting. Per agreement with HHSC, the District will make six payments of $39,004, the final payment being due December 1, 2019. During 2020 and 2019, the District made payments in the amount of $156,014 and $78,008, respectively, and the payable balance as of July 31, 2020 and 2019 is $-0- and $156,014, respectively. The respective payable is recorded within accounts payable in the combined statements of net position. The District recognized net revenue of $1,860,744 and $249,447 for the years ended July 31, 2020 and 2019, respectively. The respective net revenue is included within net patient service revenue in the combined statements of revenues, expenses, and changes in net position.

## NOTE 11 – SECTION 1115 DEMONSTRATION WAIVER PROGRAM (CONTINUED)

**Delivery System Reform Incentive Program -** As part of the Section 1115 Demonstration Waiver Program, the District is eligible to receive incentive payments through the Delivery System Reform Incentive Payment Program (DSRIP). This incentive program is designed to improve the experience of care, improve the health of populations, and contain costs. By participating in the DSRIP program, the District provides an intergovernmental transfer to finance the non-federal share of the incentive payments. In connection with this program, the District provided intergovernmental transfers of $345,519 and $354,016, and received $1,049,890 and $842,904, for the year ended July 31, 2020 and 2019, respectively. The District recognized net revenue of $704,371 and $488,888 for the years ending July 31, 2020 and 2019, respectively. The respective net revenue is included within operating revenues in the combined statements of revenues, expenses, and changes in net position.

**Indigent Care Affiliation -** Under the Section 1115 Demonstration Waiver, the District is part of an indigent care affiliation agreement with the Service Organization of West 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 West Texas then provides care to the Medicaid and non-Medicaid indigent in the region and surrounding communities. These services were valued at $2,061,747 and $2,560,530 for the years ended July 31, 2020 and 2019, respectively. As part of the affiliation agreement, the District provided $1,575,434 and $2,426,777 in funding to the program during 2020 and 2019, respectively. As of July 31, 2020 and 2019, the District has funded $1,305,201 and $1,271,230 respectively, which has been recorded as a prepaid in the combined statements of net position.

**Uniform Hospital Rate Increase Program** – The District participated in the Uniform Hospital Rate Increase Program ("UHRIP"), a program designed to direct a Medicaid managed care organization ("MCO") to provide a uniform percentage rate increase to hospitals in the MCO's network in a participating service delivery area for the provision of inpatient services, outpatient services, or both. The State of Texas determines eligibility for rate increases by service delivery area and class of hospital. 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. Intergovernmental transfers will be due approximately six months prior to the beginning of the rate period. During 2020 and 2019, the District provided $174,081 and $121,964 via intergovernmental transfer covering periods through February 28, 2021 and 2020, respectively. As of July 31, 2020 and 2019, the District had a prepaid balance of $71,557 and $99,845, respectively, which has been recorded in prepaids and other current assets in the combined statements of net position.

## NOTE 12 – 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 of indigent health care. The State of Texas created a mechanism whereby governmental transfers were made between selected district and county hospitals to generate additional federal matching funds. Hospitals participating in the Medicaid program that meet the conditions of participation and that serve a disproportionate share of low-income patients as defined by state law are eligible for additional reimbursement from the disproportionate share hospital fund. There are direct and indirect implied expectations regarding purposes of this funding. The focus of the funds is to benefit the health care needs of the medically indigent, including recipients of Medicaid benefits, those eligible for Medicaid benefits, the uninsured poor, and others for whom the cost of medical and hospital care has exceeded their ability to pay. However, state and federal law offer considerable flexibility to recipient hospitals regarding specific use of funds. Additionally, the District recognized $395,650 and $310,078 in disproportionate share revenue for the years ended July 31, 2020 and 2019, respectively. The respective net revenue is included within net patient service revenue in the combined statements of revenues, expenses, and changes in net position.

## NOTE 13 – COVID-19 FEDERAL FINANCIAL ASSISTANCE

The Coronavirus Aid, Relief, and Economic Security (CARES) Act (P.L. 116-136), 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 Phase 1-3 Stimulus payments and targeted distributions such as Rural Distribution, Allocation for Skilled Nursing Facilities (SNFs) and, Allocation for Safety Net Hospitals. Recipients of these funds agreed to Terms and Conditions, which require compliance with reporting requirements as specified by the Secretary of Health and Human Services in program instructions.

**Stimulus Phases 1-3** – By accepting the Relief Funds, the District must maintain compliance with the Secretary's terms and conditions, including but not limited to, using the Relief Funds to prevent, prepare for, and respond to coronavirus, and shall reimburse the District only for health care related expenses or lost revenues that are attributable to coronavirus. The District's commitment to full compliance with all terms and conditions is material to the Secretary's decision to disburse these funds. Non-compliance with any terms and conditions is grounds for the secretary to recoup some or all of the payment made from the Relief Fund. The District received stimulus funds in the amount of $4,114,115 for the year ended July 31, 2020.

## NOTE 13 – COVID-19 FEDERAL FINANCIAL ASSISTANCE (CONTINUED)

**Safety Net** – The provider Relief Funds designated to safety net hospitals is for those hospitals that disproportionately provide care to the most vulnerable and operate on thin margins. Acute care hospitals meeting the revised profitability threshold of less than 3% averaged consecutively over two or more of the last 5 cost reporting periods, as reported to CMS in its Cost Report filings, a Medicare disproportionate payment percentage of 20.2% or greater, and an average uncompensated care per bed of $25,000 or more. The funds received by the District shall reimburse the expenses used to prevent, prepare for, and respond to coronavirus or lost revenues attributable to coronavirus. The District received safety net funds in the amount of $292,292 for the year ended July 31, 2020.

**Rural Health Clinic Testing** – The Department of Health and Human Services distributed funds received from the Public Health and Social Services Emergency Fund, as appropriated in P.L. 116-139 ("Rural Testing Relief Fund"). In connection with this program, the District received $98,923 in Rural Testing Relief Funds for the year ended July 31, 2020. The District is to use the funding reimburse for COVID-19 testing requirements, including purchasing supplies (such as test kits and other testing supplies).

**Allocation for Skilled Nursing Facilities (SNFs) –** The Relief Funds provided to skilled nursing facilities is to help them combat the effects of the pandemic on the nation's vulnerable seniors. The provider relief funds will be used to support nursing homes suffering from significant expenses or lost revenue attributable to COVID-19. Each SNF will receive a fixed distribution of $50,000, plus a distribution of $2,500 per bed to all certified SNFs with six or more certified beds. The Nursing Home must attest they will only use the Provider Relief Fund payments to prevent, prepare for, and respond to coronavirus, and that the Payment shall reimburse for health care related expenses or lost revenues that are attributable to coronavirus. The District received Skilled Nursing Facilities funds in the amount of $185,000 for the year ended July 31, 2020.

In accordance with the Department of Health and Human Services Post-Payment Notice of Reporting Requirements released January 15, 2021, the recipients must submit their use of PRF payments by reporting healthcare related expenses attributable to coronavirus that another source has not reimbursed then applying actual patient care lost revenues to the remaining funds. If recipients do not expend PRF funds in full by the end of calendar year 2020, they will have an additional six months in which to use remaining amounts toward expenses attributable to coronavirus but not reimbursed by other sources, and/or lost revenues. For the year ended July 31, 2020, the District incurred qualifying expenditures and recognized COVID-19 federal financial assistance revenue in the amount of $4,690,330. The respective revenue is included within nonoperating revenues in the accompanying combined statements of revenues, expenses and changes in net position.

## NOTE 14 – MEDICARE ACCELERATED ADVANCE PAYMENTS

On March 28, 2020, Centers for Medicare and Medicaid Services (CMS) expanded the existing Accelerated and Advance Payments Program (AAP) to a broader group of Medicare Part A providers and Part B Suppliers. An accelerated or advance 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.

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 advance payments during the COVID-19 Public Health Emergency. Repayment does not begin until one year from the date the accelerated or advance 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 ended, Medicare payments owed to the providers and suppliers will be recouped at a rate of 50% for another six months. After six months end, a letter for any remaining balance of the accelerated or advance payments will be issued. As of July 31, 2020, the District received $3,665,442 in Medicare Accelerated Advance Payments, which are recorded within deferred inflows of resources in the combined statements of net position.

## NOTE 15 – NURSING HOME OPERATIONS

**Quality Incentive Payment Program** – During its 84th session, the Texas Legislature directed HHSC to begin a new Quality Incentive Payment Program (QIPP) effective September 1, 2016, and HHSC implemented QIPP on September 1, 2017. QIPP requires participating facilities meeting certain qualifying criteria to submit projects to HHSC requesting the additional funding as supported in the individual projects. These projects are expected to improve quality and innovation in the provision of nursing facility services, including but not limited to payment incentives to establish culture change, small house models, staffing enhancements and outcome measures to improve the quality of care and life for nursing facility residents. A portion of the additional funding will be funded through intergovernmental transfer (IGT) payments from each participating provider. QIPP IGTs for a specific capitation rate period will be due to HHSC approximately six months prior to the beginning of the rate period. During 2020, the District transferred approximately $315,000 to HHSC via an IGT for use as the state share of payments for Year 3 second period March 1, 2020 through August 31, 2020 and Year 4 first period September 1, 2020 through February 28, 2021. During 2019, the District transferred approximately $246,000 to HHSC via an IGT for use as the state share of payments for Year 2 second period March 1, 2019 through August 31, 2019 and Year 3 first period September 1, 2019 through February 28, 2020. As of July 31, 2020 and 2019, the District recorded prepaid IGT in the amount of $170,437 and $189,889, respectively, and is recorded in other receivables in the combined statements of net position. Net revenue for the years ended July 31, 2020 and 2019 was $311,776 and $109,328, respectively. The net revenue is recorded within net patient service revenue in the combined statements of revenues, expenses and changes in net position.

## NOTE 16 - EMPLOYEE BENEFITS

**Deferred Compensation Plan** - Effective August 1, 1996, the District entered into an agreement for an employee 457(b) deferred compensation plan, known as the Dallam-Hartley County Hospital District Deferred Compensation Plan (the "Plan") and administered by InWest Pension Management, Inc. Under the Plan, all employees over the age of 18 and with three months continuous service are eligible to participate. Employees must complete one year of continuous service with a minimum of 1,000 hours to be eligible for employer matching contributions. Eligible employees may elect to defer a portion of their salary into the Plan, not to exceed annual limits set by law. In 2017, this plan was amended to allow Roth contributions. The District contributes a discretionary matching contribution to the Plan. The District's retirement expense amounted to $155,549 and $176,216 for the years ended July 31, 2020 and 2019, respectively. Total employee contributions were $291,285 and $337,121 for the years ended July 31, 2020 and 2019, respectively.

## NOTE 17 – MEDICAL MALPRACTICE CLAIMS

The District is self-insured with respect to medical malpractice risks. The District, from time to time, may be subject to claims and lawsuits for other damages as well. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claim costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. The District has employed independent actuaries to estimate the ultimate costs, if any, of the settlement of such claims. As of July 31, 2020 and 2019, the District accrued $480,000 and $390,000, respectively, related to medical malpractice claim costs. It is reasonably possible that this estimate could change materially in the near term. The District is a unit of government covered by the Texas Tort Claims Act which, by statute, limits its liability to $100,000 per individual and $300,000 aggregate claim. These limits coincide with the malpractice self-insured program for medical malpractice risks.

## NOTE 18 - EMPLOYEE HEALTH CLAIMS

The District is self-funded for health claims of participating employees and dependents up to $75,000 per individual. Commercial stop-loss insurance coverage is purchased for claims in excess of the individual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on the consideration of prior claims experience, recently settled claims, frequency of claims, and other economic and social factors. Activity in the District's accrued employee health claims liability during 2020 and 2019 is summarized as follows:

| | 2020 | 2019 |
|---|---|---|
| Balance, Beginning of Year | $ 201,000 | $ 185,000 |
| Current Year Claims Incurred and Changes in Estimates for Claims Incurred in Prior years | 1,291,027 | 1,287,931 |
| Claims and Expenses Paid | (1,464,027) | (1,271,931) |
| Balance, End of Year | $ 28,000 | $ 201,000 |

## NOTE 19 - COMMITMENTS AND CONTINGENCIES

**Litigation** - The District is from time-to-time subject to claims and suits for damages, including damages for personal injuries to patients and others, most of which are covered as to risk and amount. In the opinion of management, the ultimate resolution of any pending legal proceedings will not have a material effect on the District's combined 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 year 7 and 8. Consequently, management has recorded an estimate for the anticipated recoupment of DSH and UC funds at July 31, 2020 and 2019. At July 31, 2020 and 2019, management recorded an estimated recoupment liability of $233,000 and $213,000, respectively. The recoupment liability is included within other accrued liabilities in the accompanying combined statements of net position.

## NOTE 20 – SUBSEQUENT EVENTS

The date to which events occurring after July 31, 2020, the date of the most recent combined statement of net position, have been evaluated for possible adjustment to the combined financial statements or disclosure is April 21, 2021, which is the date on which the combined financial statements were available to be issued.

# INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors and Management
Dallam-Hartley Counties Hospital District
Dalhart, Texas

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the combined statement of net position of Dallam-Hartley Counties Hospital District and Dallam-Hartley Counties Healthcare Foundation, Inc., a component unit of Dallam-Hartley Counties Hospital District (collectively referred to as the "District") as of July 31, 2020, and the related combined statement of revenues, expenses, and changes in net position and combined statement of cash flows for the year then ended, and the related notes to the combined financial statements, which collectively comprise the District's basic combined financial statements, and have issued our report thereon dated April 21, 2021.

## Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's combined financial statements will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the District's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the combined financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards.*

**Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Durbin & Company, L.L.P.

Durbin & Company, L.L.P.
Lubbock, Texas
April 21, 2021