

**OCHILTREE HOSPITAL DISTRICT
PERRYTON, TEXAS**

**FOR THE YEARS ENDED
SEPTEMBER 30, 2021 AND 2020**



INDEPENDENT AUDITOR'S REPORT

Board of Directors and Management
Ochiltree Hospital District
Perryton, Texas

Report on the Financial Statements

We have audited the accompanying statements of net position of Ochiltree Hospital District (the "District"), as of September 30, 2021 and 2020, and the related statement of revenues, expenses, and changes in net position, and statement of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Ochiltree Hospital District's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit 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 financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Ochiltree Hospital District, as of September 30, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages A-1 through A-5 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Title 2 of the U.S. *Code of Federal Regulations* (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements.

The schedule of expenditures of federal awards is the responsibility of management and was derived from and related directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects in relation to the financial statements as a whole.

Durbin & Company, L.L.P.
Certified Public Accountants

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 25, 2022, on our consideration of Ochiltree Hospital 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 25, 2022

**OCHILTREE HOSPITAL DISTRICT
PERRYTON, TEXAS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOR THE YEARS ENDED
SEPTEMBER 30, 2021 AND 2020**

OCHILTREE HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS AND FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2021 AND 2020

UNAUDITED

Our discussion and analysis of Ochiltree Hospital District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal years ended September 30, 2021 and 2020. Please read it in conjunction with the District's financial statements, which begin on page 1.

FINANCIAL HIGHLIGHTS

- The District's net position reflects an increase of \$3,332,465 or 10.1% in 2021 and \$4,483,885 or 15.7% in 2020.
- Net patient service revenue increased by \$2,399,828 or 14.6% in 2021 and increased by \$1,908,557 or 13.1% in 2020.
- The District reported an operating loss of \$5,112,113 in 2021 compared to an operating loss of \$5,396,494 in 2020. The operating loss was a favorable decrease of \$284,381 or 5.3% over the operating loss reported in 2020.
- Total operating expenses increased in 2021 by \$1,965,876 or 8.7% in comparison to the increase of \$2,932,884 or 14.9% in 2020.

USING THIS ANNUAL REPORT

The District's financial statements consist of three statements, a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District but restricted for specific purposes by contributors, grantors, and enabling legislation.

The Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position

Our analysis of the District's finances begins on page A-2. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. You can think of the District's net position—the difference between assets and liabilities—as one way to measure the District's financial health, or net position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors; however, such as changes in the District's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the District.

**OCHILTREE HOSPITAL DISTRICT
 UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS
 OF FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2021 AND 2020**

The Statement of Cash Flows

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

THE DISTRICT'S NET POSITION

The District's net position is the difference between its assets and liabilities reported in the Statement of Net Position on pages 1 and 2. The District's net position increased by \$3,332,465 or 10.1% in 2021 and \$4,483,885 or 15.7% in 2020, as shown in **Table 1**.

Table 1: Assets, Liabilities, and Net Position

	<u>2021</u>	<u>2020</u>	<u>2019</u>
Assets:			
Current Assets	\$ 25,419,518	\$ 25,964,328	\$ 17,017,639
Capital Assets (net)	24,240,578	23,599,900	23,742,892
Restricted Assets	10,000	10,000	10,000
Other Non-Current Assets	<u>258,037</u>	<u>258,037</u>	<u>258,037</u>
Total Assets	<u>49,928,133</u>	<u>49,832,265</u>	<u>41,028,568</u>
Liabilities and Deferred Inflows of Resources:			
Long-Term Debt Outstanding	\$ 8,650,684	\$ 11,446,357	\$ 10,404,128
Other Current and Non-Current Liabilities	<u>2,753,933</u>	<u>2,238,640</u>	<u>2,044,987</u>
Total Liabilities	11,404,617	13,684,997	12,449,115
Deferred Inflows of Resources	<u>2,127,713</u>	<u>3,083,930</u>	<u>-</u>
Total Liabilities and Deferred Inflows of Resources	13,532,330	16,768,927	12,449,115
Net Position:			
Net Investment in Capital Assets	15,589,894	13,926,039	13,338,764
Restricted	10,000	10,000	10,000
Unrestricted	<u>20,795,909</u>	<u>19,127,299</u>	<u>15,230,689</u>
Total Net Position	<u>36,395,803</u>	<u>33,063,338</u>	<u>28,579,453</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 49,928,133</u>	<u>\$ 49,832,265</u>	<u>\$ 41,028,568</u>

**OCHILTREE HOSPITAL DISTRICT
UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

Total assets increased \$95,868 or 0.2% in 2021 and increased \$8,803,697 or 21.5% in 2020, mainly due to Provider Relief Funds received as a result of the COVID-19 pandemic, increasing the cash balance. Total liabilities decreased \$2,280,380 or 16.7% in 2021 and increased \$1,235,882 or 9.9% in 2020. The decrease in 2021 is due to the forgiveness of the Paycheck Protection Program (PPP) Note received during the COVID-19 pandemic.

OPERATING RESULTS AND CHANGES IN THE DISTRICT'S NET POSITION

In 2021 and 2020, the District's net position increased by \$3,332,465, or 10.1%, and \$4,483,885, or 15.7%, respectively.

Table 2: Operating Results and Changes in Net Position

	2021	2020	2019
Operating Revenues:			
Net Patient Service Revenue	\$ 18,873,514	\$ 16,473,686	\$ 14,565,129
Other Operating Revenue	579,666	729,237	199,488
Total Operating Revenue	<u>19,453,180</u>	<u>17,202,923</u>	<u>14,764,617</u>
Operating Expenses:			
Salaries and Benefits	14,018,812	13,031,157	11,457,673
Other Operating Expenses	8,968,982	8,016,049	6,773,408
Depreciation / Amortization	1,577,499	1,552,211	1,435,452
Total Operating Expenses	<u>24,565,293</u>	<u>22,599,417</u>	<u>19,666,533</u>
Operating Loss	(5,112,113)	(5,396,494)	(4,901,916)
Nonoperating Revenues and Expenses:			
Property Taxes	6,061,639	5,903,731	5,647,493
Noncapital Grants / Contributions	19,631	8,844	17,165
Investment Income	152,255	205,162	354,872
Interest Expense	(384,564)	(375,072)	(399,803)
Tobacco Settlement Revenue	110,669	102,337	116,664
Insurance Recoveries	-	-	144,777
Gain on Extinguishment of Debt	1,772,496	-	-
CARES Act Provider Relief Revenue	408,508	3,496,217	-
Other Nonoperating	158,206	155,443	16,823
Total Nonoperating Revenues (Expenses)	<u>8,298,840</u>	<u>9,496,662</u>	<u>5,897,991</u>
Excess (Deficiency) of Revenues over Expenses Before Capital Grants and Contributions	3,186,727	4,100,168	996,075
Capital Grants and Contributions	<u>145,738</u>	<u>383,717</u>	<u>129,842</u>
Increase (Decrease) in Net Position	3,332,465	4,483,885	1,125,917
Net Position, Beginning of Year	<u>33,063,338</u>	<u>28,579,453</u>	<u>27,453,536</u>
Net Position, End of Year	<u>\$ 36,395,803</u>	<u>\$ 33,063,338</u>	<u>\$ 28,579,453</u>

**OCHILTREE HOSPITAL DISTRICT
UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

Operating Income (Loss)

The first component of the overall change in the District's net position is its operating income (loss) – generally, the difference between net patient service revenues and the expenses incurred to perform those services. The District has reported an operating loss in 2021 of \$5,112,113 and an operating loss in 2020 of \$5,396,494.

The primary components of the decrease in operating loss for 2021 are:

- Increase in net patient service revenue of \$2,399,828 or 14.6% over 2020
- Decrease in other operating revenue of \$149,571 or 20.5% over 2020

The primary components of the increase in operating loss for 2020 are:

- Increase in net patient revenue of \$1,908,557 or 13.1% over 2019
- Increase in other operating revenue of \$529,749 or 265.6% over 2019
- Increase in salaries and benefits of \$1,573,484 or 13.7% over 2019
- Increase in supplies and other operating expenses of \$779,397 or 22.7% over 2019

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of property taxes levied by the District, tobacco settlement proceeds, CARES Act provider relief fund program revenue, and gain on extinguishment of debt.

Grants, Contributions, and Endowments

The District receives both capital and operating grants from various sources for specific purposes. Noncapital grants and contributions received during 2021 and 2020 were \$19,631 and \$8,844, respectively. Capital grants and contributions received during 2021 and 2020 were \$145,738 and \$383,717, respectively.

THE DISTRICT'S CASH FLOWS

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

**OCHILTREE HOSPITAL DISTRICT
UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2021 and 2020, the District had \$24,240,578 and \$23,599,900, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 9 of the financial statements. The District acquired capital assets in the amount of \$2,211,336 and \$1,409,219 in 2021 and 2020, respectively.

Debt

During 2020, the District assumed a Paycheck Protection Program ("PPP") loan in the amount of \$1,772,496, as detailed in Note 10 of the financial statements. In July 2021, the District received notice the PPP loan was forgiven in its entirety.

At September 30, 2021 and 2020, the District had \$8,650,684 and \$11,446,357, respectively, in long-term debt outstanding, as detailed in Note 10 of the financial statements. During 2021 and 2020, the District made payments of \$1,023,177 and \$1,184,862, respectively, on outstanding debt.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Administration at Ochiltree Hospital District, 3101 Garrett Dr., Perryton, Texas 79070.

**OCHILTREE HOSPITAL DISTRICT
PERRYTON, TEXAS**

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
SEPTEMBER 30, 2021 AND 2020**

OCHILTREE HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

SEPTEMBER 30, 2021 AND 2020

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:	<u>2021</u>	<u>2020</u>
CURRENT ASSETS		
Cash and Cash Equivalents	20,388,344	17,562,288
Short-Term Investments	-	4,000,000
Assets Whose Use is Limited	312,126	141,809
Patient Accounts Receivable, Net	3,042,934	2,062,690
Estimated Third-Party Payor Settlements	-	762,893
Inventory of Supplies	527,953	485,558
Prepaid and Other Current Assets	1,095,755	886,237
Property Taxes Receivable	<u>52,406</u>	<u>62,853</u>
Total Current Assets	25,419,518	25,964,328
ASSETS RESTRICTED FOR GRANT PROJECTS	10,000	10,000
CAPITAL ASSETS, Net of Accumulated Depreciation	24,240,578	23,599,900
OTHER ASSETS	<u>258,037</u>	<u>258,037</u>
Total Assets	<u>\$ 49,928,133</u>	<u>\$ 49,832,265</u>

The accompanying notes are an integral part of these financial statements

OCHILTREE HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

SEPTEMBER 30, 2021 AND 2020

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION:	<u>2021</u>	<u>2020</u>
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	\$ 1,068,819	\$ 2,106,840
Accounts Payable	637,723	183,086
Accrued Payroll, Benefits, and Related Liabilities	759,848	1,177,098
Other Accrued Liabilities	728,970	598,456
Self Funded Health Insurance	411,000	280,000
Estimated Third-Party Payor Settlements	216,392	-
Total Current Liabilities	<u>3,822,752</u>	<u>4,345,480</u>
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Portion	7,581,865	9,339,517
Total Noncurrent Liabilities	<u>7,581,865</u>	<u>9,339,517</u>
Total Liabilities	11,404,617	13,684,997
DEFERRED INFLOWS OF RESOURCES		
Medicare Accelerated Payment Advance	1,948,440	2,696,149
CARES Act Provider Relief Funds	179,273	387,781
Total Deferred Inflows of Resources	2,127,713	3,083,930
NET POSITION		
Net Investment in Capital Assets	15,589,894	13,926,039
Restricted:		
Expendable Grant Projects	10,000	10,000
Unrestricted	<u>20,795,909</u>	<u>19,127,299</u>
Total Net Position	<u>36,395,803</u>	<u>33,063,338</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 49,928,133</u>	<u>\$ 49,832,265</u>

The accompanying notes are an integral part of these financial statements

OCHILTREE HOSPITAL DISTRICT

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	2021	2020
OPERATING REVENUES:		
Net Patient Service Revenue	\$ 18,873,514	\$ 16,473,686
Delivery System Reform Incentive Revenue	257,243	354,255
Other Operating Revenue	322,423	374,982
Total Operating Revenues	19,453,180	17,202,923
OPERATING EXPENSES:		
Salaries and Wages	11,041,773	9,801,817
Employee Benefits	2,977,039	3,229,340
Professional Fees and Purchased Services	3,638,244	3,804,296
Supplies and Other	5,330,738	4,211,753
Depreciation and Amortization	1,577,499	1,552,211
Total Operating Expenses	24,565,293	22,599,417
Operating Loss	(5,112,113)	(5,396,494)
NONOPERATING REVENUES (EXPENSES):		
Property Tax Revenue	6,061,639	5,903,731
Noncapital Grants and Contributions	19,631	8,844
Investment Income	152,255	205,162
Interest Expense	(384,564)	(375,072)
Tobacco Settlement Revenue	110,669	102,337
Gain on Extinguishment of Debt	1,772,496	-
CARES Act Provider Relief Revenue	408,508	3,496,217
Other Non Operating	158,206	155,443
Total Nonoperating Revenues (Expenses)	8,298,840	9,496,662
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Contributions	3,186,727	4,100,168
Capital Grants and Contributions	145,738	383,717
Increase (Decrease) in Net Position	3,332,465	4,483,885
Net Position, Beginning of Year	33,063,338	28,579,453
Net Position, End of Year	\$ 36,395,803	\$ 33,063,338

The accompanying notes are an integral part of these financial statements

OCHILTREE HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	<u>2021</u>	<u>2020</u>
CASH FLOW FROM OPERATING ACTIVITIES:		
Receipts from and on Behalf of Patients	\$ 18,209,173	\$ 18,579,394
Payments to Suppliers and Contractors	(8,562,542)	(7,982,587)
Payments to Employees	(14,454,849)	(12,785,838)
Other Receipts and Payments, net	<u>561,333</u>	<u>665,220</u>
Net Cash Provided by (Used in) Operating Activities	(4,246,885)	(1,523,811)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Earnings	162,873	215,293
Purchase of Investments	-	(8,000,000)
Proceeds From Sale of Investments	<u>4,000,000</u>	<u>4,040,000</u>
Net Cash Provided by (Used in) Investing Activities	4,162,873	(3,744,707)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital Grants and Contributions	145,738	383,717
Principal Payments on Long-Term Debt and Notes Payable	(1,022,727)	(1,202,476)
Interest Payments on Long-Term Debt and Notes Payable	(384,591)	(350,626)
Purchase of Capital Assets	<u>(2,211,336)</u>	<u>(937,010)</u>
Net Cash Provided by (Used in) Capital and Related Financing Activities	(3,472,916)	(2,106,395)
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES:		
Property Tax Revenues	6,072,086	5,893,891
Noncapital Grants and Contributions	19,631	8,844
COVID-19 Federal Financial Assistance	200,000	3,883,998
Proceeds From Issuance of Long-Term Debt and Notes Payable	-	1,772,496
Proceeds from Tobacco Settlement	110,669	102,337
Other Nonoperating	<u>150,915</u>	<u>155,443</u>
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>6,553,301</u>	<u>11,817,009</u>
Net Increase (Decrease) in Cash and Cash Equivalents	2,996,373	4,442,096
Cash and Cash Equivalents, Beginning of Year	<u>17,704,097</u>	<u>13,262,001</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 20,700,470</u></u>	<u><u>\$ 17,704,097</u></u>

The accompanying notes are an integral part of these financial statements

OCHILTREE HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED SEPTEMBER 30, 2021 AND 2020

	2021	2020
RECONCILIATION OF CASH AND EQUIVALENTS TO THE STATEMENTS OF NET POSITION:		
Cash and Equivalents Presented Under the Following Titles:		
Cash and Cash Equivalents	\$ 20,388,344	\$ 17,562,288
Assets Whose Use is Limited - Current	312,126	141,809
	\$ 20,700,470	\$ 17,704,097
RECONCILIATION OF NET INCOME TO NET CASH USED BY OPERATING ACTIVITIES		
Operating (Loss)	\$ (5,112,113)	\$ (5,396,494)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Used in Operating Activities:		
Depreciation and Amortization	1,577,499	1,552,211
Provision for Bad Debts	2,676,842	1,610,842
(Increase) Decrease in:		
Accounts Receivable	(3,657,086)	(1,831,829)
Prepaid Expenses and Other Current Assets	(262,531)	(220,076)
Estimated Third-Party Payor Settlements	979,285	(103,821)
Increase (Decrease) in:		
Accounts Payable	454,637	24,159
Accrued Salaries and Benefits Payable	(417,250)	284,255
Other Accrued Liabilities	261,541	(139,207)
Deferred Inflow of Resources	(747,709)	2,696,149
Net Cash Provided By (Used in) Operating Activities	\$ (4,246,885)	\$ (1,523,811)

The accompanying notes are an integral part of these financial statements

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Ochiltree Hospital District (the “District”) was created by the state of Texas to operate, control, and manages Ochiltree County’s health care functions. The District was formed as a political subdivision under the laws of the state of Texas, with its operations governed by a five-member board elected by the citizens of Ochiltree County, Texas. The District primarily earns revenues by providing inpatient, outpatient, emergency care, and assisted living services to patients in the Ochiltree County area. The District operates Ochiltree General Hospital, Perryton Health Center, and The Seasons assisted living facility.

During 2018 Management signed a certificate of formation which established the OCHD Local Government Corporation No. 1 (LGC No.1) and also made changes to the District’s organizational structure. Management passed ownership of the Home Health/Hospice and assisted living facility from the District to the LGC No. 1. During 2020 the District consolidated the LGC No. 1 back into the District resulting in a single organizational structure as it was previous to 2018.

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

Recently Adopted Accounting Pronouncements:

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

- The effective date for GASB Statement No. 87, Leases, 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, Accounting for Interest Cost Incurred before the End of a Construction Period, 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. 90, Majority Equity Interest, 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, Conduit Debt Obligations, has been postponed from reporting periods beginning after December 15, 2019 to reporting periods beginning after December 15, 2020.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Adopted Accounting Pronouncements (Continued):

GASB Statement No. 95 (Continued) –

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

Pending Adoption of Recent Accounting Pronouncements:

GASB Statement No. 87 – In June 2017, GASB issued GASB Statement No. 87 – *Leases*. The objective of this Statement is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as 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, 2019. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

GASB Statement No. 89 – In June 2018, the Governmental Accounting Standards Board (“GASB”) issued GASB Statement No. 89 – *Accounting for Interest Cost Incurred Before the end of a Construction Period*. The objectives of this Statement are (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, 2019. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

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

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pending Adoption of Recent Accounting Pronouncements (Continued):

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

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

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates – The preparation of 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 date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – The District considers highly liquid investments with an original maturity of three months or less to be cash equivalents. At September 30, 2021 and 2020, cash equivalents consisted primarily of certificates of deposit.

Investments – The District’s short-term investments are stated at fair value and are comprised of certificates of deposits with maturities in excess of three months, but less than a year, when purchased.

Patient Accounts Receivable – The allowance for estimated uncollectible patient accounts receivable is maintained at a level which, in management’s judgement, 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 uncollectables and contractuals are generally determined by applying historical percentages to financial classes within accounts receivable. The allowances are increased by a provision for bad debt expenses and contractual adjustments, and reduced by write-offs, net of recoveries.

Inventory of Supplies – Inventory is stated at historical cost on the First-In, First-out (FIFO) Method.

Capital Assets – Capital assets are recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. The District provides for depreciation of capital assets by the straight-line method and at rates promulgated by the American Hospital Association, which are designed to amortize the cost of such equipment over its useful life. Equipment under capital lease obligations and leasehold improvements are 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 financial statements. Except for capital assets acquired through gifts, contributions, or capital grants, interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring these assets. The District capitalizes acquisitions over \$5,000 with a useful life listed below.

The following are a range of useful lives used by asset class:

Land Improvements	10 to 15 years
Building (Components)	5 to 40 years
Fixed Equipment	5 to 20 years
Major Moveable Equipment	3 to 20 years

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes – The District received approximately 22% and 22% of its financial support from property taxes in 2021 and 2020, respectively. These funds were used to support operations.

Property taxes are levied by the District on October 1st of each year based on the preceding January 1st assessed property values. To secure payment, an enforceable lien attaches to the property on January 1st, when the value is assessed. Property taxes become due and payable when levied on October 1st. This is the date on which an enforceable legal claim arises, and the District records a receivable for the property tax assessment, less an allowance for uncollectible taxes. Property taxes are considered delinquent after January 31st of the following year.

Net Position – Net position of the District are classified in two components. Net position invested in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net position is the remaining assets less the remaining liabilities that do not meet the definition of invested in capital assets, net of related debt.

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

Federal Income Taxes – The District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the District is subject to federal income tax on any unrelated business taxable income, if any.

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

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

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk Management – The District is exposed to various risks of loss from torts: theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disaster; medical malpractice; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage during the year.

The District is 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-insured portion of employee health claims and includes an estimate of the ultimate cost for both claims and claims incurred but not yet reported.

Reclassifications – Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications did not affect the financial position or changes in net position as previously reported.

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 tentative rates 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.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

NOTE 2 - NET PATIENT SERVICE REVENUE (CONTINUED)

Net patient service revenue is comprised as follows:

	<u>2021</u>	<u>2020</u>
Routine Patient Services	\$ 4,119,829	\$ 3,817,561
Ancillary Patient Services		
Inpatient	8,975,720	4,727,261
Outpatient	<u>23,287,816</u>	<u>18,005,897</u>
Gross Patient Service Revenue	36,383,365	26,550,719
Charity	(1,112,495)	(1,021,614)
Third-Party Contractual Adjustments	(14,510,392)	(8,341,617)
Provision for Bad Debts	(2,676,842)	(1,610,842)
Medicaid Supplemental Payments & Other Credits	<u>789,878</u>	<u>897,040</u>
 Net Patient Service Revenue	 <u>\$ 18,873,514</u>	 <u>\$ 16,473,686</u>

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 year and prior years’ cost reports are recorded in the financial statements as they are determined by the District. Estimated third-party payor settlements recorded at September 30, 2021 and 2020 are \$216,392 in current liabilities and \$762,893 in current assets, respectively.

Charity Care – The value of charity care provided by the District based upon its established rates, was \$1,112,495 in 2021 and \$1,021,614 in 2020. 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 report, to determine the total cost. The District’s cost of providing charity care was approximately \$743,439 and \$830,956 for the years ended September 30, 2021 and 2020, respectively.

NOTE 3 – INVESTMENTS

The District’s investments are reported at fair value and consist of certificates of deposit, which are readily available to convert to cash, and are classified as cash and cash equivalents and short-term investments. At September 30, 2021 and 2020, the District’s investments were \$19,210,000 and \$19,210,000, respectively.

The District's investments may be exposed to the following types of risks:

Interest Rate Risk – Interest rate risk is the risk that market values of investments will change based on changes in market interest rates.

**OCHILTREE HOSPITAL DISTRICT
 NOTES TO FINANCIAL STATEMENTS (CONTINUED)
 SEPTEMBER 30, 2021 AND 2020**

NOTE 3 – INVESTMENTS (CONTINUED)

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

Concentration of Credit Risk – The District places no limit on the amount that may be invested in any one issuer.

Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the value of investments will occur in the near-term and that such change could materially affect the amounts reported in the accompanying statements of net position.

NOTE 4 – DEPOSITS WITH FINANCIAL INSTITUTIONS

At September 30, 2021 and 2020, the carrying amount of the District’s deposits with financial institutions was \$20,700,470 and \$21,704,097, respectively, and the bank balance was \$21,191,118 and \$22,207,856, respectively. The bank balance is categorized as follows:

	<u>2021</u>	<u>2020</u>
Amount Insured by the FDIC	\$ 500,000	\$ 500,000
Amount Collateralized with Securities Held by the Pledging Financial Institution's Trust Department in the District's name	<u>20,691,118</u>	<u>21,707,856</u>
Total Bank Balance	<u><u>\$21,191,118</u></u>	<u><u>\$22,207,856</u></u>

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

NOTE 5 – ASSETS WHOSE USE IS LIMITED

Assets whose use is limited consist of the following at September 30:

	<u>2021</u>	<u>2020</u>
Internally Designated for Health Insurance Claims:		
Cash and Cash Equivalents	194,878	21,457
Internally Designated for Hospice Operations:		
Cash and Cash Equivalents	64,589	63,544
Internally Designated for Employee Benefits:		
Cash and Cash Equivalents	9,413	17,747
Internally Designated for Memorial Donations:		
Cash and Cash Equivalents	8,140	6,058
Internally Designated for Assisted Living Facility Rent Deposits:		
Cash and Cash Equivalents	<u>35,106</u>	<u>33,003</u>
Total Assets Whose Use is Limited	<u>\$ 312,126</u>	<u>\$ 141,809</u>

NOTE 6 – RESTRICTED ASSETS

The Composition of restricted assets as of September 30, 2021 and 2020 is set forth in the following table:

	<u>2021</u>	<u>2020</u>
Restricted for Grant Projects	<u>\$ 10,000</u>	<u>\$ 10,000</u>

NOTE 7 – PATIENT ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at September 30, 2021 and 2020:

	<u>2021</u>	<u>2020</u>
Gross Accounts Receivable	\$ 7,716,430	\$ 5,607,891
Less: Allowance for Bad Debts	(3,056,588)	(2,361,887)
Allowance for Contractuals	<u>(1,616,908)</u>	<u>(1,183,314)</u>
Accounts Receivable, Net of Allowance	<u>\$ 3,042,934</u>	<u>\$ 2,062,690</u>

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

NOTE 7 – PATIENT ACCOUNTS RECEIVABLE (CONTINUED)

Concentration of Credit Risk – The District grants credit without collateral to its patients, most of who are residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Medicare	27%	20%
Medicaid	6%	5%
Other Third-Party Payors	33%	30%
Patients	<u>34%</u>	<u>45%</u>
 Total	 <u>100%</u>	 <u>100%</u>

NOTE 8 – PROPERTY 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. Tax revenue, net of related expenses for 2021 and 2020 was \$6,061,639 and \$5,903,731, respectively. The tax rates for September 30, 2021 and 2020 were \$.494 and \$.383, respectively. As of September 30, 2021 and 2020, the balance of property taxes receivable and its related allowance for uncollectible taxes are as follows:

	<u>2021</u>	<u>2020</u>
Taxes Receivable	\$ 153,386	\$ 186,614
Less: Allowance for Uncollectible Taxes	<u>(100,980)</u>	<u>(123,761)</u>
 Taxes Receivable, Net of Allowance	 <u>\$ 52,406</u>	 <u>\$ 62,853</u>

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

NOTE 9 – CAPITAL ASSETS

The following is a summary of capital assets at cost less accumulated depreciation for the years ended September 30:

	Balance 09/30/20	Additions	Reclass/ Retirements	Balance 09/30/21
Land	\$ 171,637	\$ -	\$ -	\$ 171,637
Land Improvements	48,292	6,825	-	55,117
Building And Improvements	30,569,121	55,110	1,208,767	31,832,998
Equipment	7,787,553	622,961	-	8,410,514
Capital Leases	472,209	-	-	472,209
Construction in Progress	213,619	1,526,440	(1,208,767)	531,292
Totals at Historical Cost	<u>39,262,431</u>	<u>2,211,336</u>	-	<u>41,473,767</u>
Less Accumulated Depreciation for:				
Land Improvements	(9,523)	(3,257)	-	(12,780)
Building and Improvements	(8,701,833)	(1,022,320)	-	(9,724,153)
Equipment	(6,920,458)	(450,639)	-	(7,371,097)
Capital leases	<u>(30,717)</u>	<u>(94,442)</u>	-	<u>(125,159)</u>
Total Accumulated Depreciation	<u>(15,662,531)</u>	<u>(1,570,658)</u>	-	<u>(17,233,189)</u>
Capital Assets, Net	<u>\$ 23,599,900</u>	<u>\$ 640,678</u>	\$ -	<u>\$ 24,240,578</u>

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

NOTE 9 – CAPITAL ASSETS (CONTINUED)

The following is a summary of capital assets at cost less accumulated depreciation for the years ended September 30:

	<u>Balance 09/30/19</u>	<u>Additions</u>	<u>Reclass/ Retirements</u>	<u>Balance 09/30/20</u>
Land	\$ 171,637	\$ -	\$ -	\$ 171,637
Land Improvements	48,292	-	-	48,292
Building And Improvements	30,377,097	192,024	-	30,569,121
Equipment	7,256,186	531,367	-	7,787,553
Capital Leases	-	472,209	-	472,209
Construction in Progress	-	213,619	-	213,619
	<u>37,853,212</u>	<u>1,409,219</u>	<u>-</u>	<u>39,262,431</u>
Less Accumulated				
Depreciation for:				
Land Improvements	(6,304)	(3,219)	-	(9,523)
Building and Improvements	(7,704,854)	(996,979)	-	(8,701,833)
Equipment	(6,399,162)	(521,296)	-	(6,920,458)
Capital leases	-	(30,717)	-	(30,717)
	<u>(14,110,320)</u>	<u>(1,552,211)</u>	<u>-</u>	<u>(15,662,531)</u>
Total Accumulated Depreciation	<u>(14,110,320)</u>	<u>(1,552,211)</u>	<u>-</u>	<u>(15,662,531)</u>
Capital Assets, Net	<u>\$ 23,742,892</u>	<u>\$ (142,992)</u>	<u>\$ -</u>	<u>\$ 23,599,900</u>

Construction in progress at September 30, 2021 includes amounts related to the Seasons renovation, radiology renovation and surgical center construction projects. The radiology renovation and surgical center construction projects will be completed in three phases. Phase I for the radiology remodel was completed April 2021 at an approximate total cost of \$1.2 million. Phases II and III for the surgical center will be completed at an estimated cost of \$4.7 million with an estimated completion in August 2022 for Phase II and February 2023 for Phase III. The seasons remodel is estimated to be completed in fiscal year 2023.

Total depreciation expense for 2021 and 2020, was \$1,577,499 and \$1,552,211, respectively.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

NOTE 10 – LONG-TERM DEBT

A schedule of changes in the District’s long-term debt consists of the following at September 30:

	Balance 09/30/20	Additions	Reductions	Balance 09/30/21	Due Within One Year
Long-Term Debt:					
Series 2016	\$ 2,146,000	\$ -	\$ (164,000)	1,982,000	\$ 170,000
Note Payable, Phase 3 (1)	2,292,469	-	(179,669)	2,112,800	191,884
Note Payable, Phase 3 (2)	2,380,878	-	(182,194)	2,198,684	188,257
Note Payable, 2015	1,165,839	-	(246,095)	919,744	253,746
Note Payable, 2006	1,234,080	-	(176,358)	1,057,722	186,993
PPP Loan	1,772,496	-	(1,772,496)	-	-
Total Long-Term Debt	<u>10,991,762</u>	<u>-</u>	<u>(2,720,812)</u>	<u>8,270,950</u>	<u>990,880</u>
Capital Lease Obligations					
Stryker Laproscope	159,962	-	(36,771)	123,191	38,286
Siemens CT Scan	294,633	-	(38,090)	256,543	39,653
Total Capital Lease Obligations	<u>454,595</u>	<u>-</u>	<u>(74,861)</u>	<u>379,734</u>	<u>77,939</u>
Total Long-Term Debt and Capital Lease Obligations	<u>\$ 11,446,357</u>	<u>\$ -</u>	<u>\$ (2,795,673)</u>	<u>\$ 8,650,684</u>	<u>\$ 1,068,819</u>
	Balance 09/30/19	Additions	Reductions	Balance 09/30/20	Due Within One Year
Long-Term Debt:					
Series 2016	\$ 2,305,000	\$ -	\$ (159,000)	\$ 2,146,000	\$ 164,000
Note Payable, X-ray	263,363	-	(263,363)	-	-
Note Payable, Phase 3 (1)	2,478,013	-	(185,544)	2,292,469	185,614
Note Payable, Phase 3 (2)	2,552,675	-	(171,797)	2,380,878	182,194
Note Payable, 2015	1,404,558	-	(238,719)	1,165,839	246,545
Note Payable, 2006	1,400,519	-	(166,439)	1,234,080	176,358
PPP Loan	-	1,772,496	-	1,772,496	1,077,142
Total Long-Term Debt	<u>\$ 10,404,128</u>	<u>\$ 1,772,496</u>	<u>\$ (1,184,862)</u>	<u>\$ 10,991,762</u>	<u>\$ 2,031,853</u>
Capital Lease Obligations					
Stryker Laproscope	-	171,355	(11,393)	159,962	36,771
Siemens CT Scan	-	300,854	(6,221)	294,633	38,216
Total Capital Lease Obligations	<u>-</u>	<u>472,209</u>	<u>(17,614)</u>	<u>454,595</u>	<u>74,987</u>
Total Long-Term Debt and Capital Lease Obligations	<u>\$ 10,404,128</u>	<u>\$ 2,244,705</u>	<u>\$ (1,202,476)</u>	<u>\$ 11,446,357</u>	<u>\$ 2,106,840</u>

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

NOTE 10 – LONG-TERM DEBT (CONTINUED)

Long-Term Debt. The terms and due dates of the District’s long-term debt at September 30, 2021 and 2020 is as follows:

- Note Payable, X-Ray: Note payable to bank due in annual installments of \$43,013, at 3.29% interest rate, maturing on November 23, 2025, paid in full early in 2020.
- Note Payable, Phase 3 (1): Note payable to bank due in semi-annual installments of \$130,454, at 3.35% interest rate, maturing on December 15, 2030.
- Note Payable, Phase 3 (2): Note payable to bank due in semi-annual installments of \$129,509, at 3.30% interest rate, maturing on June 15, 2031.
- Note Payable, 2015: Note payable to bank due in semi-annual installments of \$139,315, at 2.90% interest rate, maturing on February 12, 2025. Secured by personal property.
- Note Payable, 2006: Note payable to bank due in annual installments of \$253,108, variable interest rates ranging from 3.99% to 6.39%, maturing on January 30, 2026. Secured by personal property.
- Series 2016 Bond Payable: Bond payable to bank due in annual installments of various amounts, at 3.35% interest rate, due April 1, 2031.
- Note Payable: \$1,772,496 Paycheck Protection Program (“PPP”) loan payable to FirstBank Southwest, payable in monthly installments of \$99,668, carrying an interest rate of 1.00%, with a maturity date of May 1, 2022, and secured by the U.S. Small Business Administration. 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 July 2021, the District received notice of full forgiveness from the Small Business Association for the PPP loan. For the years ended September 30, 2021 and 2020, the District recognized the gain on extinguishment of debt of \$1,772,496 and \$-0-, respectively.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

NOTE 10 – LONG-TERM DEBT (CONTINUED)

Capital Leases: The terms and due dates of the District’s capital leases as of September 30, 2021 and 2020 are as follows:

- Stryker Laproscope Lease – 4.05% capital lease obligation commencing on October 1, 2019. Principal and interest is payable in monthly installments of \$3,547 through October 1, 2024, collateralized by the leased equipment.
- Siemens CT Scan Lease – 4.04% capital lease obligation commencing on August 31, 2020. Principal and interest is payable in monthly installments of \$4,117 through August 31, 2027, collateralized by the leased equipment.

Note Payable, X-Ray: This Public Property Finance Act Contract was entered to finance the purchase of radiology equipment. The note payable is secured by the District’s personal property. In accordance with the debt indenture, the following is required:

Payment Fund: The District shall establish a payment fund and apply the funds therein to the payment of payments as such payments come due. During 2020, the District maintained a payment fund in accordance with this debt indenture until the loan was paid in full.

Budget: The District agrees to prior to adopting a budget for any ensuing fiscal year, it shall place in its proposed budget for such ensuing fiscal year an amount necessary to pay the note payable payments for such ensuing fiscal year. The final budget for each fiscal year shall set aside and appropriate out of Ad Valorem Taxes and other revenues and funds lawfully available an amount sufficient to pay the note payable payments. The District was in compliance with this debt indenture until the loan was paid in full during 2020.

Note Payable, Phase 3 (1): This Public Property Finance Act Contract was entered to finance upgrades to the Hospital’s physical plant and energy conservation. The note payable is secured by the District’s personal property. In accordance with the debt indenture, the following is required:

Payment Fund: The District shall establish a payment fund and apply the funds therein to the payment of payments as such payments come due. During 2021, the District maintained a payment fund in accordance with this debt indenture.

Budget: The District agrees to prior to adopting a budget for any ensuing fiscal year, it shall place in its proposed budget for such ensuing fiscal year an amount necessary to pay the note payable payments for such ensuing fiscal year. The final budget for each fiscal year shall set aside and appropriate out of Ad Valorem Taxes and other revenues and funds lawfully available an amount sufficient to pay the note payable payments. As of September 30, 2021, the District was in compliance with this debt indenture.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

NOTE 10 – LONG-TERM DEBT (CONTINUED)

Note Payable, Phase 3 (2): This Public Property Finance Act Contract was entered to finance upgrades to the Hospital’s physical plant and energy conservation. The note payable is secured by the District’s personal property. In accordance with the debt indenture, the following is required:

Payment Fund: The District shall establish a payment fund and apply the funds therein to the payment of payments as such payments come due. During 2021, the District maintained a payment fund in accordance with this debt indenture.

Budget: The District agrees to prior to adopting a budget for any ensuing fiscal year, it shall place in its proposed budget for such ensuing fiscal year an amount necessary to pay the note payable payments for such ensuing fiscal year. The final budget for each fiscal year shall set aside and appropriate out of Ad Valorem Taxes and other revenues and funds lawfully available an amount sufficient to pay the note payable payments. As of September 30, 2021, the District was in compliance with this debt indenture.

Note Payable, 2015: This Public Property Finance Act Contract was entered to finance upgrades to the Hospital’s physical plant and energy conservation. The note payable is secured by the District’s personal property. In accordance with the debt indenture, the following is required:

Payment Fund: The District shall establish a payment fund and apply the funds therein to the payment of payments as such payments come due. During 2021, the District maintained a payment fund in accordance with this debt indenture.

Budget: The District agrees to prior to adopting a budget for any ensuing fiscal year, it shall place in its proposed budget for such ensuing fiscal year an amount necessary to pay the note payable payments for such ensuing fiscal year. The final budget for each fiscal year shall set aside and appropriate out of Ad Valorem Taxes and other revenues and funds lawfully available an amount sufficient to pay the note payable payments. As of September 30, 2021, the District was in compliance with this debt indenture.

Note Payable, 2006: This Public Property Finance Act Contract was entered to finance renovations to the Hospital’s emergency room. The note payable is secured by the District’s personal property. In accordance with the debt indenture, the following is required:

Revenue Fund: All funds collected from day-to-day operations by the District shall be deposited into this account. The revenue fund shall be used to pay principal and interest on the note payable.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

NOTE 10 – LONG-TERM DEBT (CONTINUED)

Additional Indebtedness: The District may incur additional parity debt so long as the District certifies to the lender (a) that it has had a positive cash flow from two of the District's three previous fiscal years and (b) that it has net revenues equal to a minimum debt service coverage ratio of 1.25 to 1.00 for the immediate preceding twelve months. The debt service coverage ratio will use the maximum annual principal and interest due under the note payable and the proposed additional parity debt. As of September 30, 2021, the District's debt service coverage ratio was 4.36 and was in compliance with this debt indenture.

Audited Financial Statements: The District agrees to provide audited financial statements, prepared by a Certified Public Accountant, no later than eight months after and as of the end of each fiscal year. The 2020 audit was issued on June 21, 2021, which was delayed as a result of the COVID-19 pandemic.

Series 2016 Bond Payable: This Revenue Bond agreement was entered to finance upgrades to the Hospital's physical plant. The note payable is secured by the District's personal property. In accordance with the debt indenture, the following is required:

Payment Fund: The District shall establish a payment fund and apply the funds therein to the payment of payments as such payments come due. During 2021, the District maintained a payment fund in accordance with this debt indenture.

Pledged Revenues: The District agrees to collect enough pledged revenues in amount to satisfy the total amount due of principal and interest on the bonds. As well as any other obligation secured by the pledged revenues. As of September 30, 2021, the District was in compliance with this debt indenture.

Audited Financial Statements: The District agrees to provide audited financial statements, prepared by a Certified Public Accountant, no later than eight months after and as of the end of each fiscal year. The 2020 audit was issued on June 21, 2021, which was delayed as a result of the COVID-19 pandemic.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

NOTE 10 – LONG-TERM DEBT (CONTINUED)

Scheduled principal and interest repayments on long-term debt are as follows:

For the Year Ending	Long-Term Debt			Capital Lease Obligations	
	Principal	Interest	Total	Principle	Interest
September 30,					
2022	\$ 990,880	\$ 297,179	\$ 1,288,059	\$ 77,939	\$ 14,029
2023	1,028,443	259,920	1,288,363	81,147	10,821
2024	1,067,487	220,981	1,288,468	84,488	7,481
2025	968,782	180,274	1,149,056	48,283	4,668
2026	865,650	143,793	1,009,443	46,588	2,816
2027-2031	3,346,611	251,460	3,598,071	44,386	901
Total	<u>\$ 8,267,853</u>	<u>\$ 1,353,607</u>	<u>\$ 9,621,460</u>	<u>\$ 382,831</u>	<u>\$ 40,716</u>

The District follows the policy of capitalizing interest as a component of the cost of capital assets constructed for its own use. The amount of interest incurred in 2021 and 2020 was \$384,564 and \$375,072, 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 \$39,761 and \$140,025, and received \$118,115 and \$424,665 for the years ended September 30, 2021 and 2020, respectively. The District recognized \$76,932 and \$284,640 in uncompensated care funds for the years ended September 30, 2021 and 2020, respectively. The respective revenue is included within net patient service revenue in the statements of revenues, expenses, and changes in net position.

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 containing costs. In connection with this program, the District provided intergovernmental transfers of \$121,000 and \$173,775, and received \$378,243 and \$528,030 for the years ended September 30, 2021 and 2020, respectively. The District recognized \$257,243 and \$354,255 in DSRIP funds for the years ended September 30, 2021 and 2020, respectively. The respective revenue is included within other operating revenue in the statements of revenues, expenses, and changes in net position.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

NOTE 11 – SECTION 1115 DEMONSTRATION WAIVER PROGRAM (CONTINUED)

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. In connection with this program, the District provided intergovernmental transfers of \$78,374 and \$155,830 for the years ended September 30, 2021 and 2020, respectively.

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 (DSH) of inpatient indigent health care. The State of Texas created a mechanism whereby intergovernmental transfers were made between selected district hospitals 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 implied expectations regarding the purposes of this funding.

The focus of the funds is to benefit the health care needs of the medically indigent, including recipient 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 the funds.

The District recognized \$497,897 and \$538,963 in disproportionate share revenue for the years ending September 30, 2021 and 2020, respectively. The respective net revenue is included in net patient service revenue in the accompanying statements of revenues, expense, and changes in net position.

NOTE 13 - MEDICAL MALPRACTICE CLAIMS

The District is a unit of government covered by the Texas Tort Claims Acts which, by statute, limits its liability to \$100,000 per person / \$300,000 per occurrence. These limits coincide with the malpractice insurance coverage maintained by the District. 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. Based upon the District’s claims experience, no such accrual has been made. It is reasonably possible that the estimate could change materially in the near term.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

NOTE 14 – EMPLOYEE HEALTH CLAIMS

The District is partially self-insured for health claims of participating employees and dependents up to \$65,000 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 consideration of prior claims experience; recently settled claims, frequency of claims, and other economic and social factors. It is reasonably possible that the District’s estimate will change by a material amount in the near term. Activity in the District’s accrued employee health claims liability during 2021 and 2020 is summarized as follows:

	<u>2021</u>	<u>2020</u>
Balance, Beginning of Year	\$ 280,000	\$ 150,000
Current Year Claims Incurred and Changes in Estimates for Claims Incurred in Prior Years	1,751,508	2,810,490
Claims and Expenses Paid	<u>(1,620,508)</u>	<u>(2,680,490)</u>
Balance, End of Year	<u>\$ 411,000</u>	<u>\$ 280,000</u>

NOTE 15 – EMPLOYEE BENEFITS

The District has a profit sharing plan, known as the Ochiltree General Hospital Profit Sharing Plan (the “Plan”). Effective January 1, 2020, the District entered into a restatement agreement for the Plan which is administered by Mutual of Omaha Retirement Services. The Plan provides retirement benefits to plan members and their beneficiaries. Under the Plan, all full-time employees with one year of service are eligible to participate. All eligible employees may enter the Plan quarterly beginning on the first day of the calendar quarter after completion of one year of service. The District contributions to the Plan shall be discretionary, but not limited to profits. The employees shall become vested in the District’s contribution at the rates of 20% after the second year, 40% after the third year, 60% after the fourth year, 80% after the fifth year, and 100% after the sixth year. The number of plan members during fiscal years September 30, 2021 and 2020 were 126 and 116, respectively. Employees do not contribute to the plan.

Pension expense is recorded for the amount for the District’s contributions. Contribution rates for the District expressed as a percentage of covered payrolls were 5% and 5% for 2021 and 2020, respectively. Contributions made by the District aggregated \$555,544 and \$531,766 during 2021 and 2020, respectively.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Litigation – The District is from time-to-time subject to claims and suits for other 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 financial position or results of operations.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

NOTE 16 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

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 demonstration year 8. Consequently, management has recorded an estimate for the anticipated recoupment of DSH and UC funds at September 30, 2021 and 2020. At September 30, 2021 and 2020, management recorded an estimated recoupment liability of \$306,000.

NOTE 17 – RELATED PARTY TRANSACTIONS

The District’s deposit accounts amounting to approximately \$21.1 million were held at a local bank where a board of director member serves as an officer. This relationship has been fully disclosed under the District’s conflict of interest policy.

NOTE 18 – CARES ACT PROVIDER RELIEF FUNDS

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

- **Stimulus Phases 1-3** – By accepting the Relief Funds, the District must maintain compliance with the Secretary's terms and conditions, including but not limited to, using the Relief Funds to prevent, prepare for, and respond to coronavirus, and shall reimburse the District only for health care related expenses or lost revenues that are attributable to coronavirus. The District's commitment to full compliance with all terms and conditions is material to the Secretary's decision to disburse these funds. Non-compliance with any terms and conditions is grounds for the secretary to recoup some or all of the payment made from the Relief Fund. The District received stimulus funds in the amount of \$-0- and \$3,785,076 for the years ended September 30, 2021 and 2020, respectively.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

NOTE 18 – CARES ACT PROVIDER RELIEF FUNDS (CONTINUED)

- **Rural Health Clinic Testing** – The Department of Health and Human Services distributed funds received from the Public Health and Social Services Emergency Fund, as appropriated in P.L. 116-139 (“Rural Testing Relief Fund”). In connection with this program, the District received \$200,000 and \$98,923 in Rural Testing Relief Funds for the years ended September 30, 2021 and 2020, respectively. The District is to use the funding reimburse for COVID-19 testing requirements, including purchasing supplies (such as test kits and other testing supplies).

In accordance with the Department of Health and Human Services Post-Payment Notice of Reporting Requirements released June 11, 2021, the recipients must submit their use of PRF payments by reporting healthcare related expenses attributable to coronavirus that another source has not reimbursed then applying actual patient care lost revenues to the remaining funds. The period of availability of funds is based on the date the payment is received. Funds received between April 10 through June 30, 2020 must be fully expended by June 20, 2021, and fund received between July 1 through December 31, 2020 must be fully expended by December 31, 2021. If recipients do not expend PRF funds in full by these deadlines towards expenses attributable to coronavirus but not reimbursed by other sources, and/or lost revenues, the funds may become subject to recoupment.

The District received \$-0- and \$3,883,999 in total COVID-19 provider relief funds, had \$408,508 and \$3,496,219 in expenses attributable to coronavirus not reimbursed by other sources, and \$-0- in lost revenues for the years ended September 30, 2021 and 2020, respectively. The District currently has \$179,273 and \$387,781 of unused funds recorded within deferred inflows of resources in the statements of net position. Additionally, the District recognized revenue of \$408,508 and \$3,496,217 for the year ended September 30, 2021 and 2020, respectively. The respective revenue is included within nonoperating revenues in the accompanying statements of revenues, expenses and changes in net position.

NOTE 19 – MEDICARE ACCELERATED PAYMENT PROGRAM

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.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2021 AND 2020**

NOTE 19 – MEDICARE ACCELERATED PAYMENT PROGRAM (CONTINUED)

The Continuing Appropriations Act, 2021 and Other Extensions Act (P.L. 116-159), enacted on October 1, 2020, amended the repayment terms for all providers who requested and received accelerated and advance payments during the COVID-19 Public Health Emergency. 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 September 30, 2021 and 2020, the District received \$-0- and \$2,696,149 in Medicare Accelerated Advance Payments. Repayments were to begin one year from the date the accelerated or advance payment was issued. During 2021 and 2020, respectively, the District repaid \$747,709 and \$-0-. The District's remaining Medicare Accelerated Advance Repayments outstanding are \$1,948,440 and \$2,696,149, respectively, as of September 30, 2021 and 2020, which are recorded within deferred inflows of resources in the statements of net position.

NOTE 20 – SUBSEQUENT EVENTS

The date to which events occurring after September 30, 2021, the date of the most recent statements of net position, have been evaluated for possible adjustment to the financial statements or disclosure is April 25, 2022, which is the date on which the financial statements were available to be issued.

SUPPLEMENTARY INFORMATION

**OCHILTREE HOSPITAL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Total Federal Expenditures
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>		
Direct Programs:		
HRSA COVID-19 Claims Reimbursement for the Uninsured Program and the COVID-19 Coverage Assistance Fund	93.461	\$ 503,508
COVID-19 Public Health and Social Services Emergency Fund for Provider Relief	93.498	3,785,075
COVID-19 Testing and Mitigation for Rural Health Clinics	93.697	98,923
<i>TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</i>		<u>4,387,506</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u><u>\$ 4,387,506</u></u>

The accompanying notes are an integral part of this schedule

**OCHILTREE HOSPITAL DISTRICT
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards (the “SEFA”) includes the federal award activity of Ochiltree Hospital District (the “Hospital”), under programs of the federal government for the year ended September 30, 2021. The information in the SEFA is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Because the schedule presents only a selected portion of the operations of the Hospital, it is not intended to and does not present the financial position, revenues, expenses, and changes in net position, or cash flows of the Hospital.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on the schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement.

NOTE 3 – INDIRECT COST RATE

The Hospital has elected not to use the 10% de minimis indirect cost rate allowed under the Uniform Guidance.

NOTE 4 - SUBRECIPIENTS

The Hospital did not provide any federal awards to subrecipients during the year ended September 30, 2021.



**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
Ochiltree Hospital District
Perryton, 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 financial statements of Ochiltree Hospital District (referred to as the “District”), as of and for the year ended September 30, 2021, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements and have issued our report thereon dated April 25, 2022.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District’s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the 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.

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 and therefore, material weaknesses or significant deficiencies may exist that have not been identified. However, as described in the accompanying schedule of findings and questioned costs, we did identify a certain deficiencies in internal control that we consider to be material weaknesses.

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 financial statements will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2021-001 and 2021-002 to be material weaknesses.

Durbin & Company, L.L.P.
Certified Public Accountants

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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's 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 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*.

Ochiltree Hospital District's Response to Findings

Ochiltree Hospital District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Ochiltree Hospital District's response was not subjected to the auditing procedures applied in the audit of the combine financial statements and, accordingly, we express no opinion on it.

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 Hospital'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 25, 2022



INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

Management and the Board of Directors
Ochiltree Hospital District
Perryton, Texas

Report on Compliance for Each Major Federal Program

We have audited Ochiltree Hospital District’s (the “District”) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District’s major federal programs for the year ended September 30, 2021. The District’s major federal programs are identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor’s Responsibility

Our responsibility is to express an opinion on compliance for each of the District’s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District’s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Hospital’s compliance.

Opinion on Each Major Federal Program

In our opinion, Ochiltree Hospital District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2021.

Report on Internal Control over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

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

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

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Durbin & Company, L.L.P.

Durbin & Company, L.L.P.
Lubbock, Texas
April 25, 2022

**OCHILTREE HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

SUMMARY OF AUDITOR'S RESULTS:

1. The auditor's report expresses an unmodified opinion on whether the financial statements of Ochiltree County Hospital District were prepared in accordance with GAAP.
2. Two material weakness relating to the audit of the financial statements is reported in the 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*, were disclosed during the audit.
3. No instances of noncompliance material to the financial statements of Ochiltree County Hospital District which would be required to be reported in accordance with *Government Auditing Standards*, were disclosed during the audit.
4. No significant deficiencies relating to the audit of the major federal award programs are reported in the Independent Auditor's Report on Compliance for Each Major Program and on Internal Control over Compliance Required by the Uniform Guidance.
5. The auditor's report on compliance for the major federal award programs for Ochiltree County Hospital District expresses an unmodified opinion on all major federal programs.
6. There are no audit findings related to major programs that are required to be reported in accordance with 2 CFR §200.516(a).
7. The program tested as a major program was:

Program	CFDA Number
COVID-19 - Public Health and Social Services Emergency Fund for Provider Relief	93.498

8. The threshold used for distinguishing between Type A and B programs was \$750,000.
9. Ochiltree County Hospital District was determined not to be a low-risk auditee.

**OCHILTREE HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

FINDINGS – FINANCIAL STATEMENT AUDIT

2021-001 **Financial Close Process**

Criteria or Specific Requirement - The month and year-end financial close process should be in accordance with generally accepted accounting principles (GAAP) to reasonably state the financial statements.

Condition - Although management has a process in place to maintain basic financial statements in accordance with GAAP, certain general ledger accounts were not reconciled during the year. Areas in which material audit adjustments were proposed and recorded by management included:

- Estimated Third Party Payor Settlements
- Allowance for Doubtful Accounts

Context - Certain general ledger accounts were not recorded in accordance with GAAP and were not properly safeguarded from misstatements.

Effect - Audit adjustments were proposed and recorded by management, some of which were material.

Cause - The monthly and year-end financial close process is not designed to reconcile all areas that require financial recognition.

Auditor's Recommendation - Management should review and refine the process to reconcile all general ledger accounts on a monthly and annual basis to reflect financial activity in accordance with GAAP

Views of Responsible Officials and Planned Corrective Actions -
Mangaement will review and refine the process to reconcile all material general

**OCHILTREE HOSPITAL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED SEPTEMBER 30, 2021**

FINDINGS – FINANCIAL STATEMENT AUDIT (CONTINUED)

2021-002

Segregation of Duties

Criteria or Specific Requirement - Management is responsible for providing segregation of duties to ensure that assets are safeguarded and financial statements are reliable.

Condition - Due to the limited size of the office staff, the District has a lack of segregation of duties.

Effect - The potential for misappropriation of assets or misstatements in the financial statements could potentially go undetected and uncorrected in a timely manner.

Cause - Due to the limited size of accounting staff, the overall control of accounting data is more concentrated than desired.

Context - Individuals within the accounting department have incompatible duties of record-keeping, authorization, and/or custody of assets in the general ledger, bank reconciliation, and accounts payable processes.

Auditor's Recommendation - Management should evaluate the costs versus the benefits of improving segregation of duties in the staffing of key financial reporting areas.

Views of Responsible Officials and Planned Corrective Actions - Management will review segregation of duties and ensure proper checks and balances are in place.

FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS AUDIT

None

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

None