

**OCHILTREE HOSPITAL DISTRICT
PERRYTON, TEXAS**

**FOR THE YEARS ENDED
SEPTEMBER 30, 2020 AND 2019**

INDEPENDENT AUDITOR'S REPORT

Board of Directors and Management
Ochiltree Hospital District
Perryton, Texas

We have audited the accompanying statements of net position of Ochiltree Hospital District (the "District"), as of September 30, 2020 and 2019, 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity'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.

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

Opinion

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, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

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

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Durbin & Company, L.L.P.

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

**OCHILTREE HOSPITAL DISTRICT
PERRYTON, TEXAS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

**FOR THE YEARS ENDED
SEPTEMBER 30, 2020 AND 2019**

OCHILTREE HOSPITAL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS AND FINANCIAL STATEMENTS

FOR THE FISCAL YEARS ENDED SEPTEMBER 30, 2020 AND 2019

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, 2020 and 2019. Please read it in conjunction with the District's financial statements, which begin on page 1.

FINANCIAL HIGHLIGHTS

- The District's net position reflects an increase of \$4,483,885 or 15.7% in 2020 and \$1,125,917 or 4.1% in 2019.
- Net patient service revenue increased by \$1,908,557 or 13.1% in 2020 and increased by \$801,406 or 5.8% in 2019.
- The District reported an operating loss of \$5,396,494 in 2020 compared to an operating loss of \$4,901,916 in 2019. The operating loss was a unfavorable increase of \$494,578 or 10.1% over the operating loss reported in 2019.
- Total operating expenses increased in 2020 by \$2,932,884 or 14.9% in comparison to the increase of \$1,818,451 or 10.2% in 2019.

USING THIS ANNUAL REPORT

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

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

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

These two statements report the District's net position and changes in them. You can think of the District's net position—the difference between assets 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, 2020 AND 2019**

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 \$4,483,885 or 15.7% in 2020 and \$1,125,917 or 4.1% in 2019, as shown in **Table 1**.

Table 1: Assets, Liabilities, and Net Position

	2020	2019	2018
Assets:			
Current Assets	\$ 25,964,328	\$ 17,017,639	\$ 17,059,900
Capital Assets (net)	23,599,900	23,742,892	23,838,064
Restricted Assets	10,000	10,000	10,000
Other Non-Current Assets	258,037	258,037	229,493
Total Assets	<u>49,832,265</u>	<u>41,028,568</u>	<u>41,137,457</u>
Liabilities and Deferred Inflows of Resources:			
Long-Term Debt Outstanding	\$ 11,446,357	\$ 10,404,128	\$ 11,322,617
Other Current and Non-Current Liabilities	2,238,640	2,044,987	2,361,304
Total Liabilities	13,684,997	12,449,115	13,683,921
Deferred Inflows of Resources	3,083,930	-	-
Total Liabilities and Deferred Inflows of Resources	16,768,927	12,449,115	13,683,921
Net Position:			
Net Investment in Capital Assets	13,926,039	13,338,764	12,515,447
Restricted	10,000	10,000	10,000
Unrestricted	19,127,299	15,230,689	14,928,089
Total Net Position	<u>33,063,338</u>	<u>28,579,453</u>	<u>27,453,536</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 49,832,265</u>	<u>\$ 41,028,568</u>	<u>\$ 41,137,457</u>

**OCHILTREE HOSPITAL DISTRICT
UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020 AND 2019**

Total assets increased \$8,803,697 or 21.5% in 2020 and decreased \$108,889 or 0.3% in 2019, mainly due to Provider Relief Funds received as a result of the COVID-19 pandemic, increasing the cash balance. Total liabilities increased \$1,235,882 or 9.9% in 2020 and decreased \$1,234,806 or 9.0% in 2019. The increase in 2020 is due to the Paycheck Protection Program (PPP) Note received during the COVID-19 pandemic.

OPERATING RESULTS AND CHANGES IN THE DISTRICT'S NET POSITION

In 2020 and 2019, the District's net position increased by \$4,483,885, or 15.7%, and \$1,125,917, or 4.1%, respectively.

Table 2: Operating Results and Changes in Net Position

	2020	2019	2018
Operating Revenues:			
Net Patient Service Revenue	\$16,473,686	\$14,565,129	\$13,763,723
Other Operating Revenue	729,237	199,488	156,481
Total Operating Revenue	<u>17,202,923</u>	<u>14,764,617</u>	<u>13,920,204</u>
Operating Expenses:			
Salaries and Benefits	13,031,157	11,457,673	9,795,010
Other Operating Expenses	8,016,049	6,773,408	6,734,667
Depreciation / Amortization	1,552,211	1,435,452	1,318,405
Total Operating Expenses	<u>22,599,417</u>	<u>19,666,533</u>	<u>17,848,082</u>
Operating Loss	(5,396,494)	(4,901,916)	(3,927,878)
Nonoperating Revenues and Expenses:			
Property Taxes	5,903,731	5,647,493	5,614,538
Noncapital Grants / Contributions	8,844	17,165	30,102
Investment Income	186,222	354,872	242,077
Interest Expense	(375,072)	(399,803)	(432,114)
Tobacco Settlement Revenue	102,337	116,664	107,455
Insurance Recoveries	-	144,777	903,048
CARES Act Provider Relief Revenue	3,496,217	-	-
Other Nonoperating	174,383	16,823	125
Gain (Loss) on Disposal of Assets	-	-	117,613
Total Nonoperating Revenues (Expenses)	<u>9,496,662</u>	<u>5,897,991</u>	<u>6,582,844</u>
Excess (Deficiency) of Revenues over Expenses Before Capital Grants and Contributions	4,100,168	996,075	2,654,966
Capital Grants and Contributions	<u>383,717</u>	<u>129,842</u>	<u>74,186</u>
Increase (Decrease) in Net Position	4,483,885	1,125,917	2,729,152
Net Position, Beginning of Year	<u>28,579,453</u>	<u>27,453,536</u>	<u>24,724,384</u>
Net Position, End of Year	<u>\$33,063,338</u>	<u>\$28,579,453</u>	<u>\$27,453,536</u>

**OCHILTREE HOSPITAL DISTRICT
UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS
OF FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020 AND 2019**

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 2020 of \$5,396,494 and an operating loss in 2019 of \$4,901,916.

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

- Increase in net patient service 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 expense of \$1,573,484 or 13.7% over 2019
- Increase in supplies and other operating expenses of \$779,397 or 22.7% over 2019

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

- Increase in net patient revenue of \$801,406 or 5.8% over 2018
- Increase in salaries and benefits of \$1,662,663 or 17.0% over 2018

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, interest income, and interest expense on long-term 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 2020 and 2019 were \$8,844 and \$17,165, respectively. Capital grants and contributions received during 2020 and 2019 were \$383,717 and \$129,842, 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, 2020 AND 2019**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2020 and 2019, the District had \$23,599,900 and \$23,742,892, 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 \$1,409,219 and \$1,340,279 in 2020 and 2019, 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. The District made no payments on the PPP loan during 2020 and it had not been forgiven as of the date of this report.

At September 30, 2020 and 2019, the District had \$11,446,357 and \$10,404,128, respectively, in long-term debt outstanding, as detailed in Note 10 of the financial statements. During 2020 and 2019, the District made payments of \$1,202,476 and \$918,489, 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, 2020 AND 2019**

OCHILTREE HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

SEPTEMBER 30, 2020 AND 2019

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:	<u>2020</u>	<u>2019</u>
CURRENT ASSETS		
Cash and Cash Equivalents	17,570,229	13,134,136
Short-Term Investments	4,000,000	40,000
Assets Whose Use is Limited	133,868	127,865
Patient Accounts Receivable, Net	2,062,690	1,841,703
Estimated Third-Party Payor Settlements	762,893	659,072
Inventory of Supplies	485,558	488,247
Prepaid and Other Current Assets	886,237	673,603
Property Taxes Receivable	<u>62,853</u>	<u>53,013</u>
Total Current Assets	25,964,328	17,017,639
ASSETS RESTRICTED FOR GRANT PROJECTS		
	10,000	10,000
CAPITAL ASSETS, Net of Accumulated Depreciation		
	23,599,900	23,742,892
OTHER ASSETS		
	<u>258,037</u>	<u>258,037</u>
Total Assets	<u>\$ 49,832,265</u>	<u>\$ 41,028,568</u>

The accompanying notes are an integral part of these financial statements

OCHILTREE HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

SEPTEMBER 30, 2020 AND 2019

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION:	<u>2020</u>	<u>2019</u>
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	\$ 2,106,840	\$ 955,155
Accounts Payable	183,086	158,927
Accrued Payroll, Benefits, and Related Liabilities	1,177,098	892,843
Other Accrued Liabilities	598,456	843,217
Self Funded Health Insurance	280,000	150,000
Total Current Liabilities	<u>4,345,480</u>	<u>3,000,142</u>
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Portion	<u>9,339,517</u>	<u>9,448,973</u>
Total Noncurrent Liabilities	<u>9,339,517</u>	<u>9,448,973</u>
 Total Liabilities	 13,684,997	 12,449,115
DEFERRED INFLOWS OF RESOURCES		
Medicare Accelerated Payment Advance	2,696,149	-
CARES Act Provider Relief Funds	<u>387,781</u>	<u>-</u>
Total Deferred Inflows of Resources	3,083,930	-
NET POSITION		
Net Investment in Capital Assets	13,926,039	13,338,764
Restricted:		
Expendable Grant Projects	10,000	10,000
Unrestricted	<u>19,127,299</u>	<u>15,230,689</u>
Total Net Position	<u>33,063,338</u>	<u>28,579,453</u>
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 <u>\$ 49,832,265</u>	 <u>\$ 41,028,568</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, 2020 AND 2019

	2020	2019
OPERATING REVENUES:		
Net Patient Service Revenue	\$16,473,686	\$14,565,129
Delivery System Reform Incentive Revenue	354,255	182,452
Other Operating Revenue	374,982	17,036
Total Operating Revenues	17,202,923	14,764,617
OPERATING EXPENSES:		
Salaries and Wages	9,801,817	8,844,222
Employee Benefits	3,229,340	2,613,451
Professional Fees and Purchased Services	3,804,296	3,341,052
Supplies and Other	4,211,753	3,432,356
Depreciation and Amortization	1,552,211	1,435,452
Total Operating Expenses	22,599,417	19,666,533
Operating Loss	(5,396,494)	(4,901,916)
NONOPERATING REVENUES (EXPENSES):		
Property Tax Revenue	5,903,731	5,647,493
Noncapital Grants and Contributions	8,844	17,165
Investment Income	186,222	354,872
Interest Expense	(375,072)	(399,803)
Tobacco Settlement Revenue	102,337	116,664
Insurance Recoveries	-	144,777
CARES Act Provider Relief Revenue	3,496,217	-
Other Non Operating	174,383	16,823
Total Nonoperating Revenues (Expenses)	9,496,662	5,897,991
Excess (Deficiency) of Revenues Over Expenses Before Capital Grants and Contributions	4,100,168	996,075
Capital Grants and Contributions	383,717	129,842
Increase (Decrease) in Net Position	4,483,885	1,125,917
Net Position, Beginning of Year	28,579,453	27,453,536
Net Position, End of Year	\$33,063,338	\$28,579,453

The accompanying notes are an integral part of these financial statements

OCHILTREE HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2020 AND 2019

	2020	2019
CASH FLOW FROM OPERATING ACTIVITIES:		
Receipts from and on Behalf of Patients	\$ 18,579,394	\$ 13,918,436
Payments to Suppliers and Contractors	(7,982,587)	(7,468,585)
Payments to Employees	(12,785,838)	(11,418,384)
Other Receipts and Payments, net	665,220	200,488
Net Cash Provided by (Used in) Operating Activities	(1,523,811)	(4,768,045)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Earnings	196,353	344,646
Purchase of Investments	(8,000,000)	(1,000,000)
Proceeds From Sale of Investments	4,040,000	2,000,000
Net Cash Provided by (Used in) Investing Activities	(3,763,647)	1,344,646
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital Grants and Contributions	383,717	129,842
Principal Payments on Long-Term Debt and Notes Payable	(1,202,476)	(918,489)
Interest Payments on Long-Term Debt and Notes Payable	(350,626)	(452,975)
Purchase of Capital Assets	(937,010)	(1,340,280)
Net Cash Provided by (Used in) Capital and Related Financing Activities	(2,106,395)	(2,581,902)
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES:		
Property Tax Revenues	5,893,891	5,641,445
Noncapital Grants and Contributions	8,844	17,165
COVID-19 Federal Financial Assistance	3,883,998	
Proceeds From Issuance of Long-Term Debt and Notes Payable	1,772,496	-
Proceeds from Tobacco Settlement	102,337	116,664
Other Nonoperating	174,383	161,600
Net Cash Provided by (Used in) Noncapital Financing Activities	11,835,949	5,936,874
Net Increase (Decrease) in Cash and Cash Equivalents	4,442,096	(68,427)
Cash and Cash Equivalents, Beginning of Year	13,262,001	13,330,428
Cash and Cash Equivalents, End of Year	\$ 17,704,097	\$ 13,262,001

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, 2020 AND 2019

	2020	2019
RECONCILIATION OF CASH AND EQUIVALENTS TO THE STATEMENTS OF NET POSITION:		
Cash and Equivalents Presented Under the Following Titles:		
Cash and Cash Equivalents	\$ 17,570,229	\$ 13,134,136
Assets Whose Use is Limited - Current	133,868	127,865
	\$ 17,704,097	\$ 13,262,001
RECONCILIATION OF NET INCOME TO NET CASH USED BY OPERATING ACTIVITIES		
Operating (Loss)	\$ (5,396,494)	\$ (4,901,916)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Used in Operating Activities:		
Depreciation and Amortization	1,552,211	1,435,452
Provision for Bad Debts	1,610,842	1,108,685
(Increase) Decrease in:		
Accounts Receivable	(1,831,829)	(1,344,403)
Prepaid Expenses and Other Current Assets	(220,076)	(115,102)
Estimated Third-Party Payor Settlements	(103,821)	(716,738)
Other Prepaids, Deferrals, and Accruals, Net	-	(28,544)
Increase (Decrease) in:		
Accounts Payable	24,159	(646,544)
Accrued Salaries and Benefits Payable	284,255	105,462
Other Accrued Liabilities	(139,207)	335,603
Deferred Inflow of Resources	2,696,149	-
Net Cash Provided By (Used in) Operating Activities	\$ (1,523,811)	\$ (4,768,045)

The accompanying notes are an integral part of these financial statements

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2020 AND 2019**

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. The LGC No. 1 is a component of the District; as such the District’s board oversees its activity.

As a result of the changes to the organizational structure, the accompanying financial statements include the accounts of the Ochiltree Hospital District and the OCHD Local Government Corporation No. 1. Transactions and balances between the District and the LGC No. 1 have been eliminated.

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*.

Newly Adopted Account 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.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020 AND 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Newly Adopted Account Pronouncements (Continued):

GASB Statement No. 95 (Continued)–

- The effective date for GASB Statement No. 87 has been postponed from reporting periods beginning after December 15, 2019 to reporting periods beginning after June 15, 2021.
- The effective date for GASB Statement No. 89 has been postponed from reporting periods beginning after December 15, 2019 to reporting periods beginning after December 15, 2020.
- The effective date for GASB Statement No. 90 has been postponed from reporting periods beginning after June 15, 2020 to reporting periods beginning after June 15, 2021.
- The effective date for GASB Statement No. 91 has been postponed from reporting periods beginning after December 15, 2020 to reporting periods beginning after December 15, 2021.
- The effective date for GASB Statement No. 92 has been postponed from reporting periods beginning after June 15, 2020 to reporting periods beginning after June 15, 2021.

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.

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

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020 AND 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pending Adoption of Recent Accounting Pronouncements (Continued):

GASB Statement No. 91 – In May 2019, the Governmental Accounting Standards Board (“GASB”) issued GASB Statement No. 91 – *Conduit Debt Obligations*. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for periods beginning after December 15, 2020.

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.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020 AND 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pending Adoption of Recent Accounting Pronouncements (Continued):

GASB Statement No. 92 (Continued) – The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance;
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 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.

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, 2020 and 2019, 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.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020 AND 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

Property Taxes – The District received approximately 22% and 27% of its financial support from property taxes in 2020 and 2019, 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.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020 AND 2019**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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:

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020 AND 2019**

NOTE 2 - NET PATIENT SERVICE REVENUE (CONTINUED)

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.

Net patient service revenue is comprised as follows:

	<u>2020</u>	<u>2019</u>
Routine Patient Services	\$ 3,817,561	\$ 4,015,753
Ancillary Patient Services		
Inpatient	4,727,261	4,586,332
Outpatient	<u>18,005,897</u>	<u>16,692,092</u>
Gross Patient Service Revenue	26,550,719	25,294,177
Charity	(1,021,614)	(1,395,423)
Third-Party Contractual Adjustments	(8,341,617)	(8,892,261)
Provision for Bad Debts	(1,610,842)	(1,108,685)
Medicaid Supplemental Payments & Other Credits	<u>897,040</u>	<u>667,321</u>
Net Patient Service Revenue	<u><u>\$16,473,686</u></u>	<u><u>\$14,565,129</u></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 in current assets and liabilities at September 30, 2020 and 2019, are \$762,893 and \$659,072, respectively.

Charity Care – The value of charity care provided by the District based upon its established rates, was \$1,021,614 in 2020 and \$1,395,423 in 2019. ASU 2010-23 requires charity care to be disclosed on a cost basis. The District utilizes the cost to charge ratios, as calculated based on its most recent cost report, to determine the total cost. The District’s cost of providing charity care was approximately \$830,956 and \$987,272 for the years ended September 30, 2020 and 2019, respectively.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020 AND 2019**

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, 2020 and 2019, the District’s investments were \$19,210,000 and \$11,250,000, 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.

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, 2020 and 2019, the carrying amount of the District’s deposits with financial institutions was \$21,704,097 and \$13,302,001, respectively, and the bank balance was \$22,207,856 and \$13,661,471, respectively. The bank balance is categorized as follows:

	<u>2020</u>	<u>2019</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>21,707,856</u>	<u>13,161,471</u>
Total Bank Balance	<u><u>\$22,207,856</u></u>	<u><u>\$13,661,471</u></u>

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020 AND 2019**

NOTE 5 – ASSETS WHOSE USE IS LIMITED

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

	<u>2020</u>	<u>2019</u>
Internally Designated for Health Insurance Claims:		
Cash and Cash Equivalents	13,516	490
Internally Designated for Hospice Operations:		
Cash and Cash Equivalents	63,544	29,049
Internally Designated for Employee Benefits:		
Cash and Cash Equivalents	17,747	16,034
Internally Designated for Memorial Donations:		
Cash and Cash Equivalents	6,058	82,292
Internally Designated for Assisted Living Facility Rent Deposits:		
Cash and Cash Equivalents	<u>33,003</u>	<u>-</u>
Total Assets Whose Use is Limited	<u>\$ 133,868</u>	<u>\$ 127,865</u>

NOTE 6 – RESTRICTED ASSETS

The Composition of restricted assets as of September 30, 2020 and 2019 is set forth in the following table:

	<u>2020</u>	<u>2019</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, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Gross Accounts Receivable	\$ 5,607,891	\$ 4,549,126
Less: Allowance for Bad Debts	(2,361,887)	(2,197,830)
Allowance for Contractuals	(1,183,314)	(509,593)
Accounts Receivable, Net of Allowance	<u>\$ 2,062,690</u>	<u>\$ 1,841,703</u>

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020 AND 2019**

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, 2020 and 2019 is as follows:

	<u>2020</u>	<u>2019</u>
Medicare	20%	17%
Medicaid	5%	6%
Other Third-Party Payors	30%	16%
Patients	<u>45%</u>	<u>61%</u>
 Total	 <u><u>100%</u></u>	 <u><u>100%</u></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 2020 and 2019 was \$5,903,731 and \$5,647,493, respectively. The tax rates for September 30, 2020 and 2019 were \$.383 and \$.384, respectively. As of September 30, 2020 and 2019, the balance of property taxes receivable and its related allowance for uncollectible taxes are as follows:

	<u>2020</u>	<u>2019</u>
Taxes Receivable	\$ 186,614	\$ 153,307
Less: Allowance for Uncollectible Taxes	<u>(123,761)</u>	<u>(100,294)</u>
 Taxes Receivable, Net of Allowance	 <u><u>\$ 62,853</u></u>	 <u><u>\$ 53,013</u></u>

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020 AND 2019**

NOTE 9 – CAPITAL ASSETS

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

	Balance 09/30/19	Additions	Reclass/ Retirements	Balance 09/30/20
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
Totals at Historical Cost	<u>37,853,212</u>	<u>1,409,219</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)
Total Accumulated Depreciation	<u>(14,110,320)</u>	<u>(1,552,211)</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>
	Balance 09/30/18	Additions	Reclass/ Retirements	Balance 09/30/19
Land	\$ 198,797	\$ -	\$ (27,160)	\$ 171,637
Land Improvements	-	-	48,292	48,292
Building And Improvements	28,645,396	1,111,310	620,391	30,377,097
Equipment	7,668,740	228,969	(641,523)	7,256,186
Totals at Historical Cost	<u>36,512,933</u>	<u>1,340,279</u>	-	<u>37,853,212</u>
Less Accumulated Depreciation for:				
Land Improvements	-	(1,928)	(4,376)	(6,304)
Building and Improvements	(6,773,052)	(936,178)	4,376	(7,704,854)
Equipment	(5,901,817)	(497,345)	-	(6,399,162)
Total Accumulated Depreciation	<u>(12,674,869)</u>	<u>(1,435,451)</u>	-	<u>(14,110,320)</u>
Capital Assets, Net	<u>\$23,838,064</u>	<u>\$ (95,172)</u>	<u>\$ -</u>	<u>\$23,742,892</u>

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020 AND 2019**

NOTE 9 – CAPITAL ASSETS (CONTINUED)

Construction in progress at September 30, 2020 includes amounts related to the X-ray renovation and surgical center construction projects. The construction projects will be completed in three phases. Phase I for the X-ray remodel was completed April 2021 at an estimated cost of \$1.1 million. Phases II and III for the surgical center will be completed at an estimated cost of \$4.7 million. These phases are still in the design stage, and as such, no estimated completion date is available.

Total depreciation expense for 2020 and 2019, was \$1,552,211 and \$1,435,452, respectively.

NOTE 10 – LONG-TERM DEBT

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

	Balance 09/30/19	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>
	Balance 09/30/18	Additions	Reductions	Balance 09/30/19	Due Within One Year
Long-Term Debt:					
Series 2016	\$ 2,459,000	\$ -	\$ (154,000)	\$ 2,305,000	\$ 159,000
Note Payable, X-ray	297,053	-	(33,690)	263,363	34,292
Note Payable, Phase 3 (1)	2,652,191	-	(174,178)	2,478,013	179,549
Note Payable, Phase 3 (2)	2,720,127	-	(167,452)	2,552,675	176,328
Note Payable, 2015	1,636,576	-	(232,018)	1,404,558	239,547
Note Payable, 2006	1,557,670	-	(157,151)	1,400,519	166,439
Total Long-Term Debt	<u>\$ 11,322,617</u>	<u>\$ -</u>	<u>\$ (918,489)</u>	<u>\$ 10,404,128</u>	<u>\$ 955,155</u>

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020 AND 2019**

NOTE 10 – LONG-TERM DEBT (CONTINUED)

Long-Term Debt. The terms and due dates of the District’s long-term debt at September 30, 2020 and 2019 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.
- 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.

As of the date of this report, the PPP loan had not been forgiven by the SBA.

Capital Leases: The terms and due dates of the District’s capital leases as of September 30, 2020 and 2019 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.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020 AND 2019**

NOTE 10 – LONG-TERM DEBT (CONTINUED)

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.

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, 2020, the District was in compliance with this debt indenture.

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 2020, 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, 2020, the District was in compliance with this debt indenture.

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 2020, 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, 2020, the District was in compliance with this debt indenture.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020 AND 2019**

NOTE 10 – LONG-TERM DEBT (CONTINUED)

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 2020, 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, 2020, 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. During 2020, the District maintained a revenue fund in accordance with this debt indenture.

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, 2020, the District's debt service coverage ratio was 2.85 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 2019 audit was issued on April 16, 2020.

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 2020, the District maintained a payment fund in accordance with this debt indenture.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020 AND 2019**

NOTE 10 – LONG-TERM DEBT (CONTINUED)

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, 2020, 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 2019 audit was issued on April 16, 2020.

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,					
2021	\$ 2,031,853	\$ 352,043	\$ 2,383,896	\$ 74,987	\$ 16,982
2022	1,686,234	299,499	1,985,733	78,073	13,896
2023	1,028,443	259,920	1,288,363	81,286	10,682
2024	1,067,487	220,981	1,288,468	84,632	7,337
2025	968,782	180,274	1,149,056	48,434	4,517
2026-2030	3,594,021	382,165	3,976,186	87,162	3,411
2031	614,963	440,532	1,055,495		
Total	<u>\$10,991,783</u>	<u>\$ 2,135,414</u>	<u>\$13,127,197</u>	<u>\$ 454,574</u>	<u>\$ 56,825</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 2020 and 2019 was \$375,072 and \$399,803, 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 \$140,025 and \$387,139, and received \$424,665 and \$918,028 for the years ended September 30, 2020 and 2019, respectively. The District recognized \$284,640 and \$224,889 in uncompensated care funds for the years ended September 30, 2020 and 2019, respectively. The respective revenue is included within net patient service revenue in the statements of revenues, expenses, and changes in net position.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020 AND 2019**

NOTE 11 – SECTION 1115 DEMONSTRATION WAIVER PROGRAM (CONTINUED)

Delivery System Reform Incentive Program – As part of the Section 1115 Demonstration Waiver Program, the District is eligible to receive incentive payments through the Delivery System Reform Incentive Payment Program (DSRIP). This incentive program is designed to improve the experience of care, improve the health of populations, and containing costs. In connection with this program, the District provided intergovernmental transfers of \$173,775 and \$132,132, and received \$528,030 and \$314,584 for the years ended September 30, 2020 and 2019, respectively. The District recognized \$354,255 and \$182,452 in DSRIP funds for the years ended September 30, 2020 and 2019, respectively. The respective revenue is included within other operating revenue in the statements of revenues, expenses, and changes in net position.

Uniform Hospital Rate Increase Program – The District participated in the Uniform Hospital Rate Increase Program (“UHRIP”), a program designed to direct a Medicaid managed care organization (“MCO”) to provide a uniform percentage rate increase to hospitals in the MCO’s network in a participating service delivery area for the provision of inpatient services, outpatient services, or both. The State of Texas determines eligibility for rate increases by service delivery area and class of hospital. This program is facilitated through the District providing an intergovernmental transfer whereby federal matching funds are provided to supplement the District’s shortfall in Medicaid funding. In connection with this program, the District provided intergovernmental transfers of \$155,830 and \$98,860 for the years ended September 30, 2020 and 2019, 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.

At September 30, 2020 and 2019, the District also recorded a liability of \$-0- and \$316,445, respectively, for a pay back on a portion of the 2013 disproportionate share funds they received. The District recognized \$538,963 and \$455,953 in disproportionate share revenue for the years ending September 30, 2020 and 2019, respectively. The respective net revenue is included in net patient service revenue in the accompanying statements of revenues, expense, and changes in net position.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020 AND 2019**

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.

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 2020 and 2019 is summarized as follows:

	<u>2020</u>	<u>2019</u>
Balance, Beginning of Year	\$ 150,000	\$ 150,000
Current Year Claims Incurred and Changes in Estimates for Claims Incurred in Prior Years	2,810,490	2,372,408
Claims and Expenses Paid	<u>(2,680,490)</u>	<u>(2,372,408)</u>
Balance, End of Year	<u>\$ 280,000</u>	<u>\$ 150,000</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, 2016, the District entered into a restatement agreement for the Plan which is administered by Pacific Life. 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 August 1 and the same day of the month occurring in each successive three month period. 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 10% after the first year, 20% after the second year, 30% after the third year, 40% after the fourth year, 60% after the fifth year, 80% after the sixth year, and 100% after the seventh year. The number of plan members during fiscal years September 30, 2020 and 2019 were 116 and 106, respectively. Employees do not contribute to the plan.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020 AND 2019**

NOTE 15 – EMPLOYEE BENEFITS (CONTINUED)

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 6% for 2020 and 2019, respectively. Contributions made by the District aggregated \$531,766 and \$446,166 during 2020 and 2019, 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.

Capital Construction – The District is in continued litigation with the construction company originally contracted to perform the retrofit projects. Management had concerns with the quality of the construction and has withheld payments to the construction company. As of the reporting date, the litigation settlement has been reached and the outstanding liability of \$345,575 was paid during 2019.

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, 2020 and 2019. At September 30, 2020 and 2019, management recorded an estimated recoupment liability of \$306,000.

NOTE 17 – RELATED PARTY TRANSACTIONS

The District's deposit accounts amounting to approximately \$22.2 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.

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020 AND 2019**

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 \$3,785,076 for the year ended September 30, 2020.
- **Rural Health Clinic Testing** – The Department of Health and Human Services distributed funds received from the Public Health and Social Services Emergency Fund, as appropriated in P.L. 116-139 (“Rural Testing Relief Fund”). In connection with this program, the District received \$98,923 in Rural Testing Relief Funds for the year ended September 30, 2020. The District is to use the funding reimburse for COVID-19 testing requirements, including purchasing supplies (such as test kits and other testing supplies).

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.

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

**OCHILTREE HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2020 AND 2019**

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.

The Continuing Appropriations Act, 2021 and Other Extensions Act (P.L. 116-159), enacted on October 1, 2020, amended the repayment terms for all providers who requested and received accelerated and advance payments during the COVID-19 Public Health Emergency. Repayment does not begin until one year from the date the accelerated or advance payment was issued. Beginning one year from the date the payment was issued and continuing for 11 months, Medicare payments owed to providers and suppliers will be recouped at a rate of 25%. After 11 months ended, Medicare payments owed to the providers and suppliers will be recouped at a rate of 50% for another six months. After six months end, a letter for any remaining balance of the accelerated or advance payments will be issued. As of September 30, 2020, the District received \$2,696,149 in Medicare Accelerated Advance Payments, which are recorded within deferred inflows of resources in the combined statements of net position.

NOTE 20 – SUBSEQUENT EVENTS

The date to which events occurring after September 30, 2020, the date of the most recent statements of net position, have been evaluated for possible adjustment to the financial statements or disclosure is June 21, 2021, which is the date on which the financial statements were available to be issued.