

**HUTCHINSON COUNTY HOSPITAL DISTRICT  
BORGER, TEXAS**

**AS OF AND FOR THE YEARS ENDED  
SEPTEMBER 30, 2022 AND 2021**



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
Hutchinson County Hospital District  
Borger, Texas

### **Report on the Audit of the Financial Statements**

We have audited the accompanying financial statements of the business-type activities of Hutchinson County Hospital District, as of and for the years ended September 30, 2022 and 2021, and the related notes to the financial statements, which collectively comprise Hutchinson County Hospital District's basic financial statements as presented on pages 1-5.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities of Hutchinson County Hospital District, as of September 30, 2022 and 2021, and the changes in financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### ***Basis for Opinion***

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Hutchinson County Hospital District, and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### ***Responsibilities of Management for the Financial Statements***

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

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

***Auditor's Responsibilities for the Audit of the Financial Statements***

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

In performing an audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Hutchinson County Hospital District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Hutchinson County Hospital District's ability to continue as a going concern for a reasonable period of time.

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

***Required Supplementary Information***

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

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

In accordance with *Government Auditing Standards*, we have also issued our report dated February 28, 2023 on our consideration of Hutchinson County 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 Hutchinson County Hospital District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Governmental Auditing Standards* in considering Hutchinson County Hospital District's internal control over financial reporting and compliance.

*Durbin & Company, L.L.P.*

Durbin & Company, L.L.P.  
Lubbock, Texas  
February 28, 2023

**HUTCHINSON COUNTY HOSPITAL DISTRICT  
BORGER, TEXAS**

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**AS OF AND FOR THE YEARS ENDED  
SEPTEMBER 30, 2022 AND 2021**

# HUTCHINSON COUNTY HOSPITAL DISTRICT

## UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS AND FINANCIAL STATEMENTS

SEPTEMBER 30, 2022 AND 2021

Our discussion and analysis of Hutchinson County Hospital District's (the "District") financial performance provides an overview of the District's financial activities for the years ended September 30, 2022 and 2021. Please read it in conjunction with the District's financial statements, which begin on page 1.

### FINANCIAL HIGHLIGHTS

- Cash and cash equivalents decreased in 2022 by \$510,758 or 20.5%, and increased in 2021 by \$498,279 or 25.1%.
- The District's net position decreased by \$519,078 or 5.9% in 2022, and increased by \$584,440 or 6.2% in 2021.
- The District reported an operating income in 2022 and 2021 of \$2,772,921 and \$2,321,924, respectively. The operating income in 2022 increased by \$450,997 or 19.4% over the operating income reported in 2021. The operating income in 2021 increased by \$41,485 or 1.8% over the operating income reported in 2020.
- Nonoperating revenues (expenses) decreased by \$1,554,515 or 89.5% in 2022, compared to 2021, and increased by \$223,761 or 11.4% in 2021, compared to 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.

**HUTCHINSON COUNTY HOSPITAL DISTRICT  
 UNAUDITED MANAGEMENT’S DISCUSSION AND ANALYSIS  
 AND FINANCIAL STATEMENTS (CONTINUED)  
 SEPTEMBER 30, 2022 AND 2021**

These two statements report the District’s net position and changes in net position. 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 financial position. Over time, increases or decreases in the District’s net position is one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in local economic factors, to assess the overall health of the District.

**The Statement of Cash Flows**

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

**THE DISTRICT’S NET POSITION**

The District’s net position is the difference between its assets and liabilities reported in the Statements of Net Position on page 2. The District’s net position decreased by \$519,078 or 5.9% in 2022, and increased by \$584,440 or 6.2% in 2021, as you can see from **Table 1**.

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>
Assets:			
Current Assets	\$ 3,193,563	\$ 3,703,820	\$ 2,610,247
Capital Assets (net)	10,492,392	11,226,660	12,439,869
Total Assets	<u>\$ 13,685,955</u>	<u>\$ 14,930,480</u>	<u>\$ 15,050,116</u>
Liabilities:			
Long-Term Debt Outstanding	\$ 22,855,000	\$ 23,580,000	\$ 24,265,000
Other Current and Non-Current	122,939	123,386	142,262
Total Liabilities	<u>22,977,939</u>	<u>23,703,386</u>	<u>24,407,262</u>
Deferred Inflows of Resources	600	600	800
Total Net Position	<u>(9,292,584)</u>	<u>(8,773,506)</u>	<u>(9,357,946)</u>
 Total Liabilities, Deferred Inflows of Resources, and Net Position	 <u>\$ 13,685,955</u>	 <u>\$ 14,930,480</u>	 <u>\$ 15,050,116</u>

**HUTCHINSON COUNTY HOSPITAL DISTRICT  
UNAUDITED MANAGEMENT’S DISCUSSION AND ANALYSIS  
AND FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2022 AND 2021**

**OPERATING RESULTS AND CHANGES IN THE DISTRICT’S NET POSITION**

The District’s net position decreased by \$519,078 or 5.9% in 2022, and increased by \$584,440 or 6.2% in 2021. This change is made up of different components, as shown in **Table 2**.

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

	<u>2022</u>	<u>2021</u>	<u>2020</u>
<b>OPERATING REVENUES:</b>			
Lease Income	\$ 3,500,000	\$ 3,500,000	\$ 3,500,000
Other Operating Revenue	67,959	85,493	75,679
Total Operating Revenue	<u>3,567,959</u>	<u>3,585,493</u>	<u>3,575,679</u>
<b>OPERATING EXPENSES:</b>			
Other Operating Expenses	60,770	50,360	59,587
Depreciation / Amortization	734,268	1,213,209	1,235,653
Total Operating Expenses	<u>795,038</u>	<u>1,263,569</u>	<u>1,295,240</u>
Operating Income	2,772,921	2,321,924	2,280,439
<b>NONOPERATING REVENUES (EXPENSES):</b>			
Property Taxes	2,454,498	2,611,211	2,558,383
Investment Income	8,048	7,843	10,383
Interest Expense	(954,434)	(992,497)	(1,077,142)
Indigent Care Expense	(4,800,111)	(3,364,041)	(3,452,869)
Total Nonoperating Revenues (Expenses)	<u>(3,291,999)</u>	<u>(1,737,484)</u>	<u>(1,961,245)</u>
Increase (Decrease) in Net Position	(519,078)	584,440	319,194
Net Position, Beginning of Year	<u>(8,773,506)</u>	<u>(9,357,946)</u>	<u>(9,677,140)</u>
Net Position, End of Year	<u><u>\$ (9,292,584)</u></u>	<u><u>\$ (8,773,506)</u></u>	<u><u>\$ (9,357,946)</u></u>



**HUTCHINSON COUNTY HOSPITAL DISTRICT  
UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS  
AND FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2022 AND 2021**

**Operating Income**

The first component of the overall change in the District's net position is its operating income. Generally, the difference is between net patient service revenues and the expenses incurred to perform those services. The District records lease income for the lease arrangement with GPCH for the new hospital, which is included in operating revenues. The District was formed and is operated primarily to serve residents of Hutchinson County and the surrounding area. The District levies property taxes to provide sufficient resources to enable the facility to serve lower income and other residents.

The primary component of the increase in operating income in 2022 is:

- A decrease in depreciation and amortization expense of \$478,941 or 39.5%.

The primary component of the increase in operating income in 2021 is:

- A decrease in depreciation and amortization expense of \$22,444 or 1.8%.

**Nonoperating Revenues and Expenses**

Nonoperating revenues consist primarily of property taxes levied by the District along with indigent care expenses and interest expense. Property tax revenue for 2022 and 2021 was \$2,454,498 and \$2,611,211, respectively. For the years ended September 30, 2022 and 2021, the District incurred indigent care expense of \$4,800,111 and \$3,364,041, respectively.

**THE DISTRICT'S CASH FLOWS**

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

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

As of September 30, 2022 and 2021, the District had \$10,492,392 and \$11,226,660, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 6 of the audited financial statements. The District did not purchase any capital assets in fiscal years 2022 or 2021.

**Debt**

As of September 30, 2022 and 2021, the District had \$22,855,000 and \$23,580,000, respectively, in long-term debt outstanding as detailed in Note 7 of the audited financial statements. During fiscal years 2022 and 2021, the District made principal payments of \$725,000 and \$685,000, respectively, on outstanding debt.

**HUTCHINSON COUNTY HOSPITAL DISTRICT  
UNAUDITED MANAGEMENT'S DISCUSSION AND ANALYSIS  
AND FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2022 AND 2021**

**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 Chief Financial Officer at Hutchinson County Hospital District, 100 Medical Drive, Borger, Texas 79007.

**HUTCHINSON COUNTY HOSPITAL DISTRICT  
BORGER, TEXAS**

**FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEARS ENDED  
SEPTEMBER 30, 2022 AND 2021**

# HUTCHINSON COUNTY HOSPITAL DISTRICT

## STATEMENTS OF NET POSITION

AS OF SEPTEMBER 30, 2022 AND 2021

ASSETS:	<u>2022</u>	<u>2021</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 445,420	\$ 464,877
Assets Whose Use is Limited - Internally Designated	837	370,713
Restricted Cash, Current	1,529,139	1,650,564
Rent Receivable	1,166,667	1,166,667
Prepaid and Other Current Assets	602	24,132
Property Taxes Receivable	<u>50,898</u>	<u>26,867</u>
Total Current Assets	3,193,563	3,703,820
CAPITAL ASSETS,		
Net of Accumulated Depreciation	<u>10,492,392</u>	<u>11,226,660</u>
Total Assets	<u>\$ 13,685,955</u>	<u>\$ 14,930,480</u>

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

# HUTCHINSON COUNTY HOSPITAL DISTRICT

## STATEMENTS OF NET POSITION

AS OF SEPTEMBER 30, 2022 AND 2021

### LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION:

	<u>2022</u>	<u>2021</u>
<b>CURRENT LIABILITIES</b>		
Current Portion of Long-Term Debt	\$ 780,000	\$ 725,000
Accounts Payable	6,110	2,620
Accrued Interest Payable	<u>116,829</u>	<u>120,766</u>
Total Current Liabilities	902,939	848,386
<b>NONCURRENT LIABILITIES</b>		
Long-Term Debt, Net of Current Portion	<u>22,075,000</u>	<u>22,855,000</u>
Total Liabilities	22,977,939	23,703,386
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Rent Deposits	600	600
<b>NET POSITION</b>		
Net Investment in Capital Assets	(12,362,608)	(12,353,340)
Restricted:		
Debt Service	1,529,139	1,650,564
Unrestricted	<u>1,540,885</u>	<u>1,929,270</u>
Total Net Position	<u>(9,292,584)</u>	<u>(8,773,506)</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 13,685,955</u>	<u>\$ 14,930,480</u>

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

# HUTCHINSON COUNTY HOSPITAL DISTRICT

## STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
OPERATING REVENUES:		
Lease Income	\$ 3,500,000	\$ 3,500,000
Other Revenue	67,959	85,493
Total Operating Revenues	<u>3,567,959</u>	<u>3,585,493</u>
OPERATING EXPENSES:		
Professional Fees and Purchased Services	32,685	34,625
Supplies and Other	28,085	15,735
Depreciation and Amortization	734,268	1,213,209
Total Operating Expenses	<u>795,038</u>	<u>1,263,569</u>
Operating Income	2,772,921	2,321,924
NONOPERATING REVENUES (EXPENSES):		
Property Tax Revenue	2,454,498	2,611,211
Investment Income	8,048	7,843
Interest Expense	(954,434)	(992,497)
Indigent Care Expense	(4,800,111)	(3,364,041)
Total Nonoperating Revenues (Expenses)	<u>(3,291,999)</u>	<u>(1,737,484)</u>
Increase (Decrease) in Net Position	(519,078)	584,440
Net Position, Beginning of Year	<u>(8,773,506)</u>	<u>(9,357,946)</u>
Net Position, End of Year	<u><u>\$ (9,292,584)</u></u>	<u><u>\$ (8,773,506)</u></u>

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

# HUTCHINSON COUNTY HOSPITAL DISTRICT

## STATEMENTS OF CASH FLOWS

AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Payments to Suppliers and Contractors	\$ (33,750)	\$ (65,238)
Rent Receipts	3,500,000	2,916,466
Other Receipts and Payments, net	67,959	85,493
Net Cash Provided by Operating Activities	<u>3,534,209</u>	<u>2,936,721</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment Earnings	8,048	7,843
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Principal Payments on Long-Term Debt	(725,000)	(685,000)
Interest Payments on Long-Term Debt	(958,371)	(1,008,455)
Net Cash Used by Capital and Related Financing Activities	<u>(1,683,371)</u>	<u>(1,693,455)</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
Property Taxes	2,430,467	2,611,211
Indigent Care Payments	(4,800,111)	(3,364,041)
Net Cash Used by Noncapital Financing Activities	<u>(2,369,644)</u>	<u>(752,830)</u>
Net Increase in Cash and Cash Equivalents	(510,758)	498,279
Cash and Cash Equivalents, Beginning of Year	<u>2,486,154</u>	<u>1,987,875</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,975,396</u>	<u>\$ 2,486,154</u>

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

# HUTCHINSON COUNTY HOSPITAL DISTRICT

## STATEMENTS OF CASH FLOWS (CONTINUED)

AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2022 AND 2021

	<u>2022</u>	<u>2021</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION:		
Cash and Cash Equivalents Presented Under the Following Titles:		
Cash and Cash Equivalents	\$ 445,420	\$ 464,877
Assets Whose Use is Limited - Internally Designated	837	370,713
Restricted Cash, Current	1,529,139	1,650,564
	<u>\$ 1,975,396</u>	<u>\$ 2,486,154</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	\$ 2,772,921	\$ 2,321,924
Adjustments to Reconcile Operating Income to Net Cash Flows Provided by Operating Activities:		
Depreciation and Amortization	734,268	1,213,209
(Increase) Decrease in:		
Prepaid Expenses and Other Current Assets	23,530	(595,294)
Increase (Decrease) in:		
Accounts Payable	3,490	(2,918)
Deferred Inflows of Resources	-	(200)
	<u>\$ 3,534,209</u>	<u>\$ 2,936,721</u>

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



**HUTCHINSON COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2022 AND 2021**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** - Hutchinson County Hospital District (the “District”), located in Borger, Texas is a political subdivision created and operating under the laws of the State of Texas. Historically, the District owned and operated Golden Plains Community Hospital; however, through an Asset Purchase and Assumption Agreement effective October 1, 2007, the District sold a substantial portion of assets associated with the operations of the Golden Plains Community Hospital to GPCH, LLC (“GPCH”) d/b/a Golden Plains Community Hospital (the “Hospital”), a Texas Limited Liability Company wholly owned by Critical Access Healthcare, LLC. The building, ambulance service, and tax and general revenues available at the time of closing were retained by the District. The Hospital’s operations are now owned by GPCH.

Prior to October 1, 2007, the operations consisted of an acute care hospital administered through a seven-member Board of Directors, four of whom are elected by the county precincts and three appointed by the Commissioners’ Court of Hutchinson County. The District remains as a taxing district, with property taxes levied on real property within the District.

**Arrangements with GPCH Tax Revenue and Indigent Care** – A 10-year lease agreement with GPCH became effective in September 2011 when the State of Texas approved the newly constructed building and equipment for occupancy and licensed it as a hospital. Under the terms of the agreement, GPCH will lease the buildings and land of the new facility from the District for \$291,667 per month. In October 2021, the lease agreement was extended for one year through September 30, 2022.

If the District terminates this arrangement, the Hospital’s operations could be transferred back to the District, along with the possible liability of the District to reimburse the Hospital for certain expenditures. As of September 30, 2022, no such termination has been made by the District.

The District has committed to provide funding for certain Medicaid and non-Medicaid indigent care to support the Hospital’s care of qualifying patients through the Texas Medicaid Supplemental Payment Program also known as the 1115 Waiver Program. Under this program, if the District contributes certain revenues to the State of Texas, the State provides Medicaid payments to the Hospital and their affiliated hospitals.

These funds are held, which will not be disbursed, if ever, until the District receives notice from the Texas Health and Human Services Commission (THHSC) to transfer these funds as an Intergovernmental Transfer under the 1115 Waiver Program. If the Program is discontinued, other payment arrangements will become effective. Consequently, amounts pledged are recorded as nonoperating indigent care expense for the remaining healthcare services provided by the District.

**Foundation** – The District is the beneficiary of the Jerry C. Waggoner Medical Foundation (the “Foundation”), a separate legal entity with its own Board of Directors. The Foundation has legal title to all of the Foundation’s assets. During fiscal years 2022 and 2021, the Foundation had minimal activity, did not hold regular meetings, and was determined not to be a component unit.

**HUTCHINSON COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2022 AND 2021**

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

**Enterprise Fund Accounting** – The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. The District has elected to apply the provisions based on Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement*.

**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, 2022 and 2021, cash equivalents consisted primarily of checking and savings accounts with banks.

**Assets Whose Use is Limited** – Assets whose use is limited include assets held by trustees under indenture agreements and designated assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may, at its discretion, subsequently use for other purposes. Amounts required to meet current liabilities of the District have been reclassified in the statements of net position at September 30, 2022 and 2021.

**Capital Assets** – Capital assets are recorded at cost. Contributed capital assets are reported at their estimated fair value at the time of 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 lease obligations is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Except for capital assets acquired through gifts, contributions, or capital grants, interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The District capitalizes acquisitions over \$5,000 with a useful life listed below.

Land Improvements	5 to 25 years
Buildings and Improvements	25 to 40 years
Equipment	3 to 20 years
Leased Assets	3 to 5 years
Computer Software	3 to 5 years

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

**HUTCHINSON COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2022 AND 2021**

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

**Net Position** – Net position of the District is classified in three 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. Restricted expendable net position is noncapital net position that must be used for a particular purpose, as specified by creditors, grantors or donors external to the District, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Unrestricted net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that do not meet the definition of invested in capital assets or restricted expendable.

**Operating Revenues and Expenses** – For purposes of display, the District’s statement of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with lease revenue. Non-exchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to maintain facilities, other than financing costs.

**Federal Income Taxes** - The District is a political subdivision under the laws of the State of Texas, and, therefore, it 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.

**Charity Care** - The District has agreed, after assessment of certain community needs, to provide funding for Medicaid patients and non-Medicaid indigent patients, as well as other patients by its commitment of certain revenues, under its agreement with GPCH. In 2022 and 2021, \$4,800,111 and \$3,364,041, respectively, has been recorded as nonoperating indigent care expense.

**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; and natural disaster. Commercial insurance coverage is purchased for claims arising from such matters. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

**HUTCHINSON COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2022 AND 2021**

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

**Property Taxes** – During 2022 and 2021, the District received approximately 41% and 42%, respectively, of its financial support from property taxes. Property taxes are received beginning in October of each year and become delinquent after February 1 of the following year. Revenue from property taxes is recognized in the year for which the taxes are levied. The District provides an allowance for uncollectible taxes based on historical collection information.

**Newly Adopted Accounting Pronouncements:**

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

**GASB Statement No. 89** – In June 2018, the Governmental Accounting Standards Board (“GASB”) issued GASB Statement No. 89 – *Accounting for Interest Cost Incurred Before the end of a Construction Period*. The objective of this Statement 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, 2020. Implementation of this Statement had no effect on the District’s net position.

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

- The effective date of GASB Statement No. 87, *Leases*;
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB);
- The applicability of GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits;
- The applicability of certain requirements of GASB Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements;
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition;

**HUTCHINSON COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2022 AND 2021**

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

**Newly Adopted Accounting Pronouncements (Continued):**

**GASB Statement No. 92 Continued –**

- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers;
- Reference to nonrecurring fair value measurements of assets and liabilities in authoritative literature;
- Terminology used to refer to derivative instruments.

The requirements of this Statement are effective as follows:

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

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

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

- The effective date for GASB Statement No. 87, 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 Interests, has been postponed from reporting periods beginning after December 15, 2018 to reporting periods beginning after December 15, 2019.
- The effective date for GASB Statement No. 91, Conduit Debt Obligations, has been postponed from reporting periods beginning after December 15, 2020 to reporting periods beginning after December 15, 2021.

**HUTCHINSON COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2022 AND 2021**

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

**Newly 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 June 15, 2020 to reporting periods beginning after June 15, 2021.

Implementation of this Statement had no effect on the District’s net position.

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

**Pending Adoption of Recent Accounting Pronouncements:**

**GASB Statement No. 91** – In May 2019, the Governmental Accounting Standards Board (“GASB”) issued GASB Statement No. 91 – *Conduit Debt Obligations*. The primary 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 Statement is effective for reporting periods beginning after December 15, 2021. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

**HUTCHINSON COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2022 AND 2021**

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

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

**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.

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

- Clarification of provisions in Statement No. 87, *Leases*, as amended, related to the determination of the lease term, classification of a lease as a short-term lease, recognition and measurement of a lease liability and a lease asset, and identification of lease incentives.
- Clarification of provisions in Statement No. 96, *Subscription-Based Information Technology Arrangements*, related to the subscription-based information technology arrangement (SBITA) term, classification of a SBITA as a short-term SBITA, and recognition and measurement of a subscription liability.
- Extension of the period during which the London Interbank Offered Rate (LIBOR) is considered an appropriate benchmark interest rate for the qualitative evaluation of the effectiveness of an interest rate swap that hedges the interest rate risk of taxable debt.
- Disclosures related to nonmonetary transactions.
- Pledges of future revenues when resources are not received by the pledging government.
- Clarification of provisions in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, as amended, related to the focus of the government-wide financial statements.
- Terminology updates related to certain provisions of Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.
- Terminology used in Statement 53 to refer to resource flows statements.

**HUTCHINSON COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2022 AND 2021**

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

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

**GASB Statement No. 99 Continued –**

The requirements of this Statement are effective as follows:

- The requirements related to extension of the use of LIBOR, accounting for SNAP distributions, disclosures of nonmonetary transactions, pledges of future revenues by pledging governments, clarification of certain provisions in Statement 34, as amended, and terminology updates related to Statement 53 and Statement 63 are effective upon issuance;
- The requirements related to leases, PPPs, and SBITAs are effective for fiscal years beginning after June 15, 2022;
- The requirements related to financial guarantees and the classification and reporting of derivative instruments within the scope of Statement 53 are effective for fiscal years beginning after June 15, 2023.

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

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

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



**HUTCHINSON COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2022 AND 2021**

**NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS**

As of September 30, 2022 and 2021, the carrying amount of the District's deposits with financial institutions was \$1,975,396 and \$2,486,154, respectively, and the bank balance was \$1,989,431 and \$2,499,504, respectively. The bank balance is categorized as follows:

	<u>2022</u>	<u>2021</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>1,489,431</u>	<u>1,999,504</u>
Total Bank Balance	<u>\$ 1,989,431</u>	<u>\$ 2,499,504</u>

**NOTE 3 – ASSETS WHOSE USE IS LIMITED AND RESTRICTED ASSETS**

The composition of assets whose use is limited and restricted assets as of September 30, 2022 and 2021 is set forth in the following table:

	<u>2022</u>	<u>2021</u>
Internally Designated for Capital Acquisitions:		
Cash and Cash Equivalents	\$ 837	\$ 370,713
Restricted for Debt Service:		
Cash and Cash Equivalents	<u>1,529,139</u>	<u>1,650,564</u>
Total Assets Whose Use is Limited and Restricted Assets	1,529,976	2,021,277
Less: Current Portion	<u>(1,529,976)</u>	<u>(2,021,277)</u>
Noncurrent Portion	<u>\$ -</u>	<u>\$ -</u>

**NOTE 4 – RESTRICTED EXPENDABLE NET POSITION**

As of September 30, 2022 and 2021, restricted expendable net position was available for the following purposes:

	<u>2022</u>	<u>2021</u>
Restricted Expendable Net Position:		
Restricted for Debt Service	<u>\$ 1,529,139</u>	<u>\$ 1,650,564</u>

**HUTCHINSON COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2022 AND 2021**

**NOTE 5 – PROPERTY TAXES**

Property taxes are levied on October 1 of each year and become delinquent as of February 1 of the following year. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed. Tax revenue for 2022 and 2021 was \$2,454,498 and \$2,611,211, respectively.

According to the Articles of Incorporation, the District is authorized to levy a tax on property not to exceed \$.20 per \$100 valuation for the purposes of paying operating expenses and for debt service. The current tax rate is \$.100000 per \$100 valuation. Taxes for fiscal year 2022 were levied on property within the District having an assessed valuation of approximately \$2.6 billion.

The Asset Purchase Agreement contains an agreement that allows GPCH to be consulted regarding matters of tax rate setting and for GPCH to participate in presentations regarding tax rate setting.

**NOTE 6 – CAPITAL ASSETS**

Capital asset additions, retirements, and balances as of September 30, 2022 and 2021 were as follows:

	Balance 09/30/21	Additions	Reclass/ Retirements	Balance 09/30/22
Land	\$ 417,827	\$ -	\$ -	\$ 417,827
Land Improvements	945,085	-	-	945,085
Building and Improvements	11,260,545	-	-	11,260,545
Equipment	15,776,914	-	-	15,776,914
Totals at Historical Cost	28,400,371	-	-	28,400,371
Less: Accumulated Depreciation	(17,173,711)	(734,268)	-	(17,907,979)
Capital Assets, Net	<u>\$ 11,226,660</u>	<u>\$ (734,268)</u>	<u>\$ -</u>	<u>\$ 10,492,392</u>
	Balance 09/30/20	Additions	Reclass/ Retirements	Balance 09/30/21
Land	\$ 417,827	\$ -	\$ -	\$ 417,827
Land Improvements	945,085	-	-	945,085
Building and Improvements	11,260,545	-	-	11,260,545
Equipment	15,776,914	-	-	15,776,914
Totals at Historical Cost	28,400,371	-	-	28,400,371
Less: Accumulated Depreciation	(15,960,502)	(1,213,209)	-	(17,173,711)
Capital Assets, Net	<u>\$ 12,439,869</u>	<u>\$ (1,213,209)</u>	<u>\$ -</u>	<u>\$ 11,226,660</u>

**HUTCHINSON COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2022 AND 2021**

**NOTE 7 – LONG-TERM DEBT**

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

	Balance 09/30/21	Additions	Reductions	Balance 09/30/22	Due Within One Year
Bonds Payable:					
Series A	\$ 8,350,000	\$ -	\$ (165,000)	\$ 8,185,000	\$ 175,000
Series B	7,830,000	-	(155,000)	7,675,000	165,000
Series C	7,400,000	-	(405,000)	6,995,000	440,000
Total Long-Term Debt	<u>\$ 23,580,000</u>	<u>\$ -</u>	<u>\$ (725,000)</u>	<u>\$ 22,855,000</u>	<u>\$ 780,000</u>

	Balance 09/30/20	Additions	Reductions	Balance 09/30/21	Due Within One Year
Bonds Payable:					
Series A	\$ 8,510,000	\$ -	\$ (160,000)	\$ 8,350,000	\$ 165,000
Series B	7,980,000	-	(150,000)	7,830,000	155,000
Series C	7,775,000	-	(375,000)	7,400,000	405,000
Total Long-Term Debt	<u>\$ 24,265,000</u>	<u>\$ -</u>	<u>\$ (685,000)</u>	<u>\$ 23,580,000</u>	<u>\$ 725,000</u>

The terms and due dates of the District’s long-term debt as of September 30, 2022 and 2021 are as follows:

**Revenue Bonds Payable – Series A and B**

The Series A and B revenue bonds payable consist of bonds issued through the Department of Rural Housing Service of the United States Department of Agriculture in the original amount of \$9.6 million and \$9.0 million, respectively, dated August 1, 2010, which bear interest at 3.75%. The Series A and B bonds are payable in annual installments commencing in August 2013 and maturing in August 2049. Principal payments are due on August 15 of each year, and interest is payable semiannually on February 15 and August 15 of each year. The District is required to make monthly deposits to the debt service fund held by the trustee and the interest and sinking fund. The bond proceeds were used for the construction of the new hospital facility, which was completed in October 2011. The Series A and B bonds are secured by net revenues. Payments of bond principal are also secured by an insurance policy issued by a commercial insurer.

**HUTCHINSON COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2022 AND 2021**

**NOTE 7 – LONG-TERM DEBT (CONTINUED)**

**Revenue Bonds Payable – Series C**

The Series C revenue bonds payable consist of bonds privately placed with Bank and guaranteed by the United States Department of Agriculture in the original amount of \$10 million, dated August 1, 2010, which bear interest at 4.75%, with potential increases up to 1.75% during each 5-year reset period. The next potential 1.75% increase is in 2023. The Series C bonds are payable in annual installments commencing in August 2013 and maturing in August 2032. Principal payments are due on August 15 of each year, and interest is payable semiannually on February 15 and August 15 of each year. The District is required to make monthly deposits to the debt service fund held by the trustee and the interest and sinking fund. The bond proceeds were used for the construction of the new hospital facility and medical office building, which was completed in October 2011. The Series C bonds are secured by net revenues. Payments of bond principal are also secured by an insurance policy issued by a commercial insurer.

The following is a schedule of the future principal and interest payments on long-term debt for each of the next five years and in five-year increments thereafter:

For the Year Ending September 30,	Long-Term Debt	
	Principal	Interest
2023	\$ 780,000	\$ 927,013
2024	830,000	893,363
2025	895,000	857,438
2026	965,000	818,575
2027	1,040,000	776,538
2028-2032	6,535,000	3,124,338
2033-2037	2,700,000	2,020,125
2038-2042	3,285,000	1,471,125
2043-2047	3,995,000	804,375
2048-2049	1,830,000	103,500
Total	<u>\$ 22,855,000</u>	<u>\$ 11,796,390</u>

In 2022 and 2021, total interest cost incurred was \$954,434 and \$992,497, respectively, all of which was charged to operations.

**HUTCHINSON COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
SEPTEMBER 30, 2022 AND 2021**

**NOTE 8 – CONTINGENCIES**

**Litigation** – The District is from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by commercial insurance; for example, allegations regarding performance of contracts. However, the District is a unit of government covered by Texas Tort Claims Acts, which, by statute, limits its liability to \$100,000 per person/\$300,000 per occurrence. The District evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

**NOTE 9 – AFFILIATED ENTITY**

On September 22, 2011, the District began leasing the newly constructed building and equipment to GPCH for \$291,667 per month for a period of 10 years. Lease income approximated \$3,500,000 each year for the years ended September 30, 2022 and 2021. As of September 30, 2022 and 2021, GPCH was in arrears on monthly rent payments, and the District has recorded a rent receivable from GPCH in the amount of \$1,166,667 and \$1,166,667, respectively.

**NOTE 10 – DISTRICT OPERATIONS**

The District has incurred aggregate deficiencies of revenues over expenses during 2022 and 2021, resulting in a deficit net position as of September 30, 2022 and 2021. The District provides services to the uninsured and indigent population; thus, the District is dependent upon property tax revenue and lease income to offset the indigent care costs. Loss or reduction of these collections could have a significant effect on the District's ability to continue to support the costs of indigent care.

**NOTE 11 – SUBSEQUENT EVENTS**

The date to which events occurring after September 30, 2022, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosure is February 28, 2023, which is the date on which the financial statements were available to be issued.

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

To the Board of Directors  
Hutchinson County Hospital District  
Borger, 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 Hutchinson County Hospital District, as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise Hutchinson County Hospital District’s basic financial statements, and have issued our report thereon dated February 28, 2023.

**Report Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Hutchinson County Hospital 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 Hutchinson County Hospital District’s internal control. Accordingly, we do not express an opinion on the effectiveness of Hutchinson County Hospital District’s internal control.

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

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

**Report on Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Hutchinson County Hospital 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 determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

**Purpose of this Report**

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

February 28, 2023