HUTCHINSON COUNTY HOSPITAL DISTRICT
BORGER, TEXAS

AS OF AND FOR THE YEARS ENDED
SEPTEMBER 30, 2023 AND 2022

INDEPENDENT AUDITOR'S REPORT

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

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of the business-type activities of Hutchinson County Hospital District (the “District”), as of and for the years ended September 30, 2023 and 2022, and the related notes to the financial statements, which collectively comprise the District’s basic financial statements as presented on pages 1-5.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the District, as of September 30, 2023 and 2022, 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 the 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 the District’s ability to continue as a going concern for twelve months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards 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 the District's internal control. Accordingly, no such opinion is expressed.

- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.

- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

Required Supplementary Information

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated February 29, 2024, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

D & Co., LLP

D & Co., L.L.P.
Lubbock, Texas
February 29, 2024

HUTCHINSON COUNTY HOSPITAL DISTRICT
BORGER, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEARS ENDED
SEPTEMBER 30, 2023 AND 2022

HUTCHINSON COUNTY HOSPITAL DISTRICT

UNAUDITED
MANAGEMENT'S DISCUSSION AND ANALYSIS
AND FINANCIAL STATEMENTS

SEPTEMBER 30, 2023 AND 2022

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, 2023 and 2022. Please read it in conjunction with the District's financial statements, which begin on page 1.

FINANCIAL HIGHLIGHTS

- Cash and cash equivalents decreased in 2023 by $462,845 or 23.4%, and decreased in 2022 by $510,758 or 20.5%.

- The District's net position increased by $1,638,463 or 17.6% in 2023, and decreased by $519,078 or 5.9% in 2022.

- The District reported an operating income in 2023 and 2022 of $1,895,440 and $2,772,921, respectively. The operating income in 2023 decreased by $877,481 or 31.6% over the operating income reported in 2022. The operating income in 2022 increased by $450,997 or 19.4% over the operating income reported in 2021.

- Nonoperating revenues (expenses) increased by $3,035,022 or 92.2% in 2023, compared to 2022, and decreased by $1,554,515 or 89.5% in 2022, compared to 2021.

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 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 increased by $1,638,463 or 17.6% in 2023, and decreased by $519,078 or 5.9% in 2022, as you can see from **Table 1**.

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

	2023	2022	2021
Assets:			
Current Assets	$ 7,756,141	$ 3,193,563	$ 3,703,820
Capital Assets (net)	9,765,009	10,492,392	11,226,660
Lease Receivable - Non-Current	19,017,025	-	-
Total Assets	$ 36,538,175	$13,685,955	$14,930,480
Liabilities:			
Long-Term Debt Outstanding	$ 22,075,000	$22,855,000	$23,580,000
Other Current and Non-Current	117,739	122,939	123,386
Total Liabilities	22,192,739	22,977,939	23,703,386
Deferred Inflows of Resources	21,999,557	600	600
Total Net Position	(7,654,121)	(9,292,584)	(8,773,506)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 36,538,175	$13,685,955	$14,930,480

OPERATING RESULTS AND CHANGES IN THE DISTRICT'S NET POSITION

The District's net position increased by $1,638,463 or 17.6% in 2023, and decreased by $519,078 or 5.9% in 2022. This change is made up of different components, as shown in **Table 2**.

Table 2: Operating Results and Changes in Net Position

	2023	2022	2021
OPERATING REVENUES:			
Lease Income	$ 2,658,746	$ 3,500,000	$ 3,500,000
Other Operating Revenue	67,356	67,959	85,493
Total Operating Revenue	2,726,102	3,567,959	3,585,493
OPERATING EXPENSES:			
Other Operating Expenses	103,279	60,770	50,360
Depreciation / Amortization	727,383	734,268	1,213,209
Total Operating Expenses	830,662	795,038	1,263,569
Operating Income	1,895,440	2,772,921	2,321,924
NONOPERATING REVENUES (EXPENSES):			
Property Taxes	2,946,392	2,454,498	2,611,211
Investment Income	1,461,928	8,048	7,843
Interest Expense	(922,833)	(954,434)	(992,497)
Indigent Care Expense	(3,742,464)	(4,800,111)	(3,364,041)
Total Nonoperating Revenues (Expenses)	(256,977)	(3,291,999)	(1,737,484)
Increase (Decrease) in Net Position	1,638,463	(519,078)	584,440
Net Position, Beginning of Year	(9,292,584)	(8,773,506)	(9,357,946)
Net Position, End of Year	$ (7,654,121)	$ (9,292,584)	$ (8,773,506)

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 decrease in operating income in 2023 is:

- An decrease in lease income of $841,254 or 24.0%.
- An increase in supplies and other expense of $44,364 or 158.0%.

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%.

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 2023 and 2022 was $2,946,392 and $2,454,498, respectively. For the years ended September 30, 2023 and 2022, the District incurred indigent care expense of $3,742,464 and $4,800,111, 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, 2023 and 2022, the District had $9,765,009 and $10,492,392, 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 2023 or 2022.

Debt

As of September 30, 2023 and 2022, the District had $22,075,000 and $22,855,000, respectively, in long-term debt outstanding as detailed in Note 8 of the audited financial statements. During fiscal years 2023 and 2022, the District made principal payments of $780,000 and $725,000, 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 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, 2023 AND 2022

HUTCHINSON COUNTY HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

AS OF SEPTEMBER 30, 2023 AND 2022

ASSETS:	2023	2022
CURRENT ASSETS		
Cash and Cash Equivalents	$ 45,943	$ 445,420
Assets Whose Use is Limited - Internally Designated	1,200	837
Restricted Cash, Current	1,465,408	1,529,139
Lease Receivable - Current	4,766,278	1,166,667
Prepaid and Other Current Assets	10,995	602
Interest Receivable	1,411,362	-
Property Taxes Receivable	54,955	50,898
Total Current Assets	7,756,141	3,193,563
LEASE RECEIVABLE	19,017,025	-
CAPITAL ASSETS,		
Net of Accumulated Depreciation	9,765,009	10,492,392
Total Assets	$36,538,175	$13,685,955

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

HUTCHINSON COUNTY HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

AS OF SEPTEMBER 30, 2023 AND 2022

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION:	2023	2022
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 830,000	$ 780,000
Accounts Payable	5,150	6,110
Accrued Interest Payable	112,589	116,829
Total Current Liabilities	947,739	902,939
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Portion	21,245,000	22,075,000
Total Liabilities	22,192,739	22,977,939
DEFERRED INFLOWS OF RESOURCES		
Lease Income	21,999,557	600
NET POSITION		
Net Investment in Capital Assets	(12,309,991)	(12,362,608)
Restricted:		
Debt Service	1,465,408	1,529,139
Unrestricted	3,190,462	1,540,885
Total Net Position	(7,654,121)	(9,292,584)
Total Liabilities, Deferred Inflows of Resources, and Net Position	$36,538,175	$13,685,955

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, 2023 AND 2022

	2023	2022
OPERATING REVENUES:		
Lease Income	$ 2,658,746	$ 3,500,000
Other Revenue	67,356	67,959
Total Operating Revenues	2,726,102	3,567,959
OPERATING EXPENSES:		
Professional Fees and Purchased Services	30,830	32,685
Supplies and Other	72,449	28,085
Depreciation and Amortization	727,383	734,268
Total Operating Expenses	830,662	795,038
Operating Income	1,895,440	2,772,921
NONOPERATING REVENUES (EXPENSES):		
Property Tax Revenue	2,946,392	2,454,498
Investment Income	1,461,928	8,048
Interest Expense	(922,833)	(954,434)
Indigent Care Expense	(3,742,464)	(4,800,111)
Total Nonoperating Revenues (Expenses)	(256,977)	(3,291,999)
Increase (Decrease) in Net Position	1,638,463	(519,078)
Net Position, Beginning of Year	(9,292,584)	(8,773,506)
Net Position, End of Year	$ (7,654,121)	$ (9,292,584)

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, 2023 AND 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES:		
Payments to Suppliers and Contractors	$ (114,632)	$ (33,750)
Lease Receipts	960,758	3,500,000
Other Receipts and Payments, net	1,147,665	67,959
Net Cash Provided by Operating Activities	1,993,791	3,534,209
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Earnings	50,566	8,048
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Principal Payments on Long-Term Debt	(780,000)	(725,000)
Interest Payments on Long-Term Debt	(927,073)	(958,371)
Net Cash Used by Capital and Related Financing Activities	(1,707,073)	(1,683,371)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
Property Taxes	2,942,335	2,430,467
Indigent Care Payments	(3,742,464)	(4,800,111)
Net Cash Used by Noncapital Financing Activities	(800,129)	(2,369,644)
Net Decrease in Cash and Cash Equivalents	(462,845)	(510,758)
Cash and Cash Equivalents, Beginning of Year	1,975,396	2,486,154
Cash and Cash Equivalents, End of Year	$ 1,512,551	$ 1,975,396

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, 2023 AND 2022

	2023	2022
RECONCILIATION OF CASH AND CASH EQUIVALENTS TO THE STATEMENTS OF NET POSITION:		
Cash and Cash Equivalents Presented Under the Following Titles:		
Cash and Cash Equivalents	$ 45,943	$ 445,420
Assets Whose Use is Limited - Internally Designated	1,200	837
Restricted Cash, Current	1,465,408	1,529,139
	$ 1,512,551	$ 1,975,396
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income	$ 1,895,440	$ 2,772,921
Adjustments to Reconcile Operating Income to Net Cash Flows Provided by Operating Activities:		
Depreciation and Amortization	727,383	734,268
(Increase) Decrease in:		
Prepaid Expenses and Other Current Assets	(10,393)	23,530
Lease Receivable	(22,616,636)	-
Increase (Decrease) in:		
Accounts Payable	(960)	3,490
Deferred Inflows of Resources	21,998,957	-
Net Cash Provided By Operating Activities	$ 1,993,791	$ 3,534,209

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

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 ("CAH"). The building, ambulance service, and tax and general revenues available at the time of closing were retained by the District. On December 30, 2022, CAH transferred ownership of GPCH, LLC to the District. On December 31, 2022, the District then transferred the ownership of GPCH, LLC to Hutchinson County EMS, Inc.

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 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. In December 2022, the District transferred all assets to Hutchinson County EMS, Inc. and terminated the lease agreement with GPCH. Effective January 2023, the District entered into a new lease agreement with Hutchinson County EMS, Inc., for lease of the facility and equipment. The lease is a 10-year lease with two (2) five-year lease extension options.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 2023 and 2022, the Foundation had minimal activity, did not hold regular meetings, and was determined not to be a component unit.

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, 2023 and 2022, 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, 2023 and 2022.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 2023 and 2022, $3,742,464 and $4,800,111, 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Property Taxes – During 2023 and 2022, the District received approximately 52% and 41%, 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. 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.

Pending Adoption of Recent Accounting Pronouncements (Continued):

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pending Adoption of Recent Accounting Pronouncements (Continued):

GASB Statement No. 99 Continued –

- 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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pending Adoption of Recent Accounting Pronouncements (Continued):

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.

GASB Statement No. 102 – In December 2023, the Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 102 – *Certain Risk Disclosures*. The objective of this Statement is to provide users of government financial statements with essential information about risks related to a government's vulnerabilities due to certain concentrations or constraints. The statement is effective for fiscal years beginning after June 15, 2024, with earlier application encouraged. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

NOTE 2 - DEPOSITS WITH FINANCIAL INSTITUTIONS

As of September 30, 2023 and 2022, the carrying amount of the District's deposits with financial institutions was $1,512,551 and $1,975,396, respectively, and the bank balance was $1,527,371 and $1,989,431, respectively. The bank balance is categorized as follows:

	2023	2022
Amount Insured by the FDIC	$ 311,963	$ 500,000
Amount Collateralized with Securities Held by the Pledging Financial Institution's Trust Department in the District's Name	1,215,408	1,489,431
Total Bank Balance	$ 1,527,371	$ 1,989,431

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, 2023 and 2022 is set forth in the following table:

	2023	2022
Internally Designated for Capital Acquisitions:		
Cash and Cash Equivalents	$ 1,200	$ 837
Restricted for Debt Service:		
Cash and Cash Equivalents	1,465,408	1,529,139
Total Assets Whose Use is Limited and Restricted Assets	1,466,608	1,529,976
Less: Current Portion	(1,466,608)	(1,529,976)
Noncurrent Portion	$ -	$ -

NOTE 4 – RESTRICTED EXPENDABLE NET POSITION

As of September 30, 2023 and 2022, restricted expendable net position was available for the following purposes:

	2023	2022
Restricted Expendable Net Position:		
Restricted for Debt Service	$ 1,465,408	$ 1,529,139

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 2023 and 2022 was $2,946,392 and $2,454,498, 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 2023 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, 2023 and 2022 were as follows:

	Balance 09/30/22	Additions	Reclass/ Retirements	Balance 09/30/23
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	(17,907,979)	(727,383)	-	(18,635,362)
Capital Assets, Net	$ 10,492,392	$ (727,383)	$ -	$ 9,765,009

	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	$ 11,226,660	$ (734,268)	$ -	$ 10,492,392

NOTE 7 – LEASE RECEIVABLE

On January 1, 2023, the District entered into a lease agreement to lease the hospital facility and equipment to Hutchinson County EMS, Inc. The term of the lease agreement is ten years with an option to extend the lease for two additional terms of five years each. The District shall receive a base rent amount of $291,668 per month which is $3,500,000 per year. Base rent is payable in single lump-sum payment on January 1, 2023, and on each January 1 thereafter during the term of the lease. At lease inception, the District recorded a lease receivable and related deferred inflow of resources is the amount of $23,783,303, which was measured at the present value of future lease payments expected to be received during the lease term, with interest at 9.50%. The deferred inflow of resources is amortized on a straight-line method over the lease term and recognized as lease revenue. Such amortization is included in lease revenue on the statements of revenues, expenses, and changes in net position. For the years ended September 30, 2023 and 2022, the District recognized $1,783,746 and $-0- in lease revenue, respectively, and recognized $1,411,362 and $-0- in interest revenue, respectively. As of September 30, 2023, Hutchinson County EMS, Inc. was in arrears and did not make the first yearly rent payment of $3,500,000 that was due on January 1, 2023. As of September 30, 2023 and 2022, the District's unamortized balance of deferred inflow of resources is $21,999,557 and $-0-, respectively.

NOTE 8 – LONG-TERM DEBT

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

	Balance 09/30/22	Additions	Reductions	Balance 09/30/23	Due Within One Year
Bonds Payable:					
Series A	$ 8,185,000	$ -	$ (175,000)	$ 8,010,000	$ 180,000
Series B	7,675,000	-	(165,000)	7,510,000	170,000
Series C	6,995,000	-	(440,000)	6,555,000	480,000
Total Long-Term Debt	$22,855,000	$ -	$ (780,000)	$22,075,000	$ 830,000

	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	$23,580,000	$ -	$ (725,000)	$22,855,000	$ 780,000

The terms and due dates of the District's long-term debt as of September 30, 2023 and 2022 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.

NOTE 8 – 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:

	Long-Term Debt	
For the Year Ending	Principal	Interest
September 30,		
2024	$ 830,000	$ 893,363
2025	895,000	857,438
2026	965,000	818,575
2027	1,040,000	776,538
2028	1,115,000	731,088
2029-2033	5,915,000	2,836,125
2034-2038	2,815,000	1,918,875
2039-2043	3,415,000	1,347,938
2044-2048	4,155,000	654,563
2049-2050	930,000	34,875
Total	$22,075,000	$10,869,378

In 2023 and 2022, total interest cost incurred was $922,833 and $954,434, respectively, all of which was charged to operations.

NOTE 9 – 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 10 – 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. The lease was terminated on December 31, 2022. The District recognized lease revenue in the amount of $875,000 and $3,500,000 for the years ended September 30, 2023 and 2022, respectively.

NOTE 11 – DISTRICT OPERATIONS

The District has incurred aggregate deficiencies of revenues over expenses during 2023 and 2022, resulting in a deficit net position as of September 30, 2023 and 2022. 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 12 – SUBSEQUENT EVENTS

The date to which events occurring after September 30, 2023, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosure is February 29, 2024, 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 ("the District"), as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated February 29, 2024.

Report Internal Control over Financial Reporting

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

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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. We identified a certain deficiency in internal control, described in the accompanying schedule of findings and responses as item 2023-001 that we consider to be a material weakness.

Report on Compliance and Other Matters

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

The District's Response to Findings

Government Auditing Standards requires the auditor to perform limited procedures on the District's response to the findings identified in our audit and described in the accompanying schedule of findings and responses. The District's response was not subjected to the other auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on the response.

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.

D&CO, LLP

D & Co., L.L.P.
Lubbock, Texas
February 29, 2024

MATERIAL WEAKNESS

MATERIAL WEAKNESS

Reference Number	Finding
2023-001	GASB 87 Lease Recognition

Condition **-** The District recorded revenues related to the building and equipment lease with Hutchinson County EMS, Inc as rent income. The lease met the qualifications as a lease under the Governmental Accounting Standards Board (GASB) Statement No. 87, *Leases* ("GASI 87"). Therefore, a material adjustment was necessary to record a lease receivable and deferred inflow of resources.

Criteria **-** GASB 87 was released to improve accounting and financial reporting for leases by governments. The Statement requires lessors to recognize a lease receivable and a deferred inflow of resources, enhancing the relevance and consistency of information about governments' leasing activities. Management is responsible for establishing procedures to record rental income in accordance with GASB 87.

Cause **-** Management did not record lease transactions in accordance with GASB 87 for lessors, concerning the building and equipment lease to Hutchinson County EMS, Inc.

Effect **-** The District did not report lease receivable or deferred inflows of resources. Therefore, audit adjustments, some of which were material, were proposed and recorded by

Recommendation **-** We recommend management consider the impact of this Statement on the District's balance sheet and statement of income. We suggest management update the processes in the lease receivable and deferred inflows of resources accounts to reflect activity in accordance with GASB 87. These processes should be part of the month and year-end financial close process**.**

Views of Responsible Officials **-** We are in agreement with the finding, and we have implemented internal control processes and procedures to properly record lease transactions in accordance with GASB 87.