Deaf Smith County Hospital District

d.b.a. Hereford Regional Medical Center and Hereford Rural Health Clinic

Independent Auditor’s Report and Financial Statements

September 30, 2020 and 2019

Deaf Smith County Hospital District
d.b.a. Hereford Regional Medical Center
and Hereford Rural Health Clinic
September 30, 2020 and 2019

Contents

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Independent Auditor's Report

Board of Directors
Deaf Smith County Hospital District
d.b.a. Hereford Regional Medical Center
and Hereford Rural Health Clinic
Hereford, Texas

We have audited the accompanying financial statements of Deaf Smith County Hospital District d.b.a. Hereford Regional Medical Center and Hereford Rural Health Clinic (the District) as of and for the years ended September 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of September 30, 2020 and 2019, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the pension information listed in the table of contents be presented to supplement the financial statements. Such information, although not part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements. We do not express an opinion or provide any assurance on the information because of the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Management has omitted the management's discussion and analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basic financial statements. Such missing information, although not 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. Our opinion on the basic financial statements is not affected by this missing information.

BKD, LLP

Waco, Texas
March 17, 2021

Deaf Smith County Hospital District
d.b.a. Hereford Regional Medical Center
and Hereford Rural Health Clinic

Balance Sheets

September 30, 2020 and 2019

Assets and Deferred Outflows of Resources

	2020	2019
Current Assets		
Cash	$ 23,778,453	$ 8,060,027
Patient accounts receivable, net of allowance; 2020 – $5,600,000; 2019 – $3,210,000	1,995,673	2,088,675
Property taxes receivable, net	86,606	82,887
Estimated amounts due from third-party payers	639,899	563,233
Supplies	510,236	423,439
Prepaid expenses and other current assets	285,168	407,109
Total current assets	27,296,035	11,625,370
Capital Assets, Net	25,438,835	25,917,443
Other Assets	255,509	201,662
Net Pension Asset	593,537	-
Total assets	53,583,916	37,744,475
Deferred Outflows of Resources		
Pensions	172,597	1,051,186
Refunding of debt	2,391,619	2,503,151
Total deferred outflows of resources	2,564,216	3,554,337
Total assets and deferred outflows of resources	$ 56,148,132	$ 41,298,812

See Notes to Financial Statements

Liabilities, Deferred Inflows of Resources and Net Position

	2020	2019
Current Liabilities		
Current maturities of long-term debt	$ 1,872,660	$ 772,118
Accounts payable	395,703	959,733
Unearned revenue	10,874,365	-
Accrued expenses	941,240	1,114,831
Estimated amounts due to third-party payers - current	117,590	-
Total current liabilities	14,201,558	2,846,682
Noncurrent Portion of Long-term Debt	25,505,524	25,546,572
Estimated Amounts Due to Third-Party Payers	1,289,593	-
Net Pension Liability	-	666,901
Total liabilities	40,996,675	29,060,155
Deferred Inflows of Resources - Pensions	508,685	83,315
Net Position		
Net investment in capital assets	2,346,412	2,041,421
Restricted for pensions	593,537	-
Unrestricted	11,702,823	10,113,921
Total net position	14,642,772	12,155,342
Total liabilities, deferred inflows of resources and net position	$ 56,148,132	$ 41,298,812

Deaf Smith County Hospital District
d.b.a. Hereford Regional Medical Center
and Hereford Rural Health Clinic

Statements of Revenues, Expenses and Changes in Net Position

Years Ended September 30, 2020 and 2019

	2020	2019
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2020 – $8,160,000; 2019 – $6,830,000	$ 20,786,031	$ 20,124,125
Other	702,609	928,360
Total operating revenues	21,488,640	21,052,485
Operating Expenses		
Salaries and wages	9,660,739	9,519,216
Employee benefits	1,348,430	1,861,817
Purchased services and professional fees	7,191,871	7,316,826
Supplies and other	3,723,482	3,511,130
Depreciation and amortization	2,212,654	2,091,382
Total operating expenses	24,137,176	24,300,371
Operating Loss	(2,648,536)	(3,247,886)
Nonoperating Revenues (Expenses)		
Property taxes	5,317,549	4,883,256
Interest income	88,358	61,611
Interest expense	(1,030,406)	(1,058,071)
Gain from insurance proceeds, net of asset impairment	409,551	272,791
Tobacco settlement	95,198	97,524
Noncapital grants and gifts	218,416	62,502
Total nonoperating revenues (expenses)	5,098,666	4,319,613
Excess of Revenues over Expenses Before Capital Grants and Gifts	2,450,130	1,071,727
Capital Grants and Gifts	37,300	15,502
Increase in Net Position	2,487,430	1,087,229
Net Position, Beginning of Year	12,155,342	11,068,113
Net Position, End of Year	$ 14,642,772	$ 12,155,342

Deaf Smith County Hospital District
d.b.a. Hereford Regional Medical Center
and Hereford Rural Health Clinic

Statements of Cash Flows

Years Ended September 30, 2020 and 2019

	2020	2019
Operating Activities		
Receipts from and on behalf of patients	$ 22,209,550	$ 20,925,385
Payments to suppliers and contractors	(11,437,603)	(10,899,726)
Payments to employees	(11,139,239)	(11,172,630)
Other receipts, net	702,609	928,360
Net cash provided by (used in) operating activities	335,317	(218,611)
Noncapital Financing Activities		
Proceeds from issuance of paycheck protection program loan	1,981,582	-
Proceeds from Provider Relief Funds	10,952,715	-
Property taxes supporting operations	3,593,665	3,209,214
Proceeds received from tobacco settlement	95,198	97,524
Noncapital grants and gifts	140,066	62,502
Net cash provided by noncapital financing activities	16,763,226	3,369,240
Capital and Related Financing Activities		
Capital grants and gifts	37,300	15,502
Proceeds from casualty insurance	409,551	846,722
Principal paid on long-term debt	(764,457)	(741,467)
Interest paid on long-term debt	(1,076,505)	(1,100,672)
Property taxes for debt service	1,720,165	1,675,768
Purchase of capital assets	(1,794,529)	(254,344)
Net cash provided by (used in) capital and related financing activities	(1,468,475)	441,509
Investing Activities		
Interest income	88,358	61,611
Net cash provided by investing activities	88,358	61,611
Increase in Cash	15,718,426	3,653,749
Cash, Beginning of Year	8,060,027	4,406,278
Cash, End of Year	$ 23,778,453	$ 8,060,027

Deaf Smith County Hospital District
d.b.a. Hereford Regional Medical Center
and Hereford Rural Health Clinic

Statements of Cash Flows (Continued)

Years Ended September 30, 2020 and 2019

	2020	2019
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	$ (2,648,536)	$ (3,247,886)
Depreciation and amortization	2,212,654	2,091,382
Provision for uncollectible accounts	8,160,721	6,833,823
Changes in operating assets and liabilities		
Patient accounts receivable	(8,067,719)	(7,368,403)
Accounts payable and accrued liabilities	(677,138)	164,543
Estimated third-party payer settlements	1,330,517	1,335,840
Deferred outflows of resources	878,589	(671,505)
Deferred inflows of resources - pensions	425,370	(258,677)
Net pension liability (asset)	(1,260,438)	1,261,192
Other assets and liabilities	(18,703)	(358,920)
Net cash used provided by (used in) operating activities	$ 335,317	$ (218,611)
Supplemental Cash Flows Information		
Capital assets in accounts payable	$ -	$ 60,483
Amortization of bond premium	$ 157,631	$ 159,270
Amortization of debt refunding	$ 111,532	$ 121,671
Capital asset impairment loss	$ -	$ 573,931

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Deaf Smith County Hospital District d.b.a. Hereford Regional Medical Center and Hereford Rural Health Clinic (the District), is located in Hereford, Texas. The District is a political subdivision of the state of Texas and is governed by a board of seven directors elected from the county at large. The District primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Deaf Smith County area.

Basis of Accounting and Presentation

The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, property taxes, interest income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The District first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred inflows and outflows of resources 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.

Property Taxes

The District received approximately 20% and 19% of its financial support from property taxes in 2020 and 2019, respectively. These funds were used to support operations.

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

The District's property tax rate for the maintenance and operation fund was $0.21119 and $0.21884 per $100 valuation and property tax revenue for this fund was approximately $3,598,000 and $3,207,000 for 2020 and 2019, respectively. The District's property tax rate for the interest and sinking fund was $0.10339 and $0.12016 per $100 valuation and property tax revenue for this fund was approximately $1,720,000 and $1,676,000 for 2020 and 2019, respectively.

The District enters into property tax abatement agreements with local businesses under the state Property Redevelopment and Tax Abatement Act (the Act). Under the Act, counties may designate reinvestment zones within the county boundaries, excluding municipal areas. The District, which shares part of the county boundaries, may grant abatements to applicant companies to develop projects within the reinvestment zones that are expected to provide economic benefits. The District can grant property tax abatements of up to 100 percent of a business' property tax bill. The abatements may be granted to any business developing within or promising to develop in the designated zones.

For the fiscal years ended September 30, 2020 and 2019, the District abated property taxes totaling $628,000 and $625,080, respectively, under this program, including the following tax abatement agreements:

(A) A property tax abatement on a declining schedule starting at 85% and falling to 10% over a ten year period to a developer. In return for the abatements, the developers agree to complete a construction of project of an energy facility within a reasonable time period and to continue operations for the 10 year abatement period. The District can recapture the abated taxes on any removed improvements from the date of the abatement election. The abatements amount to $21,791 and $24,490, respectively.

(B) A 50% property tax abatement for the development of an agricultural processing plant. In return for the abatements, the developers agree to complete the construction of the projects within a reasonable time period and to continue operations for the 10 year abatement period. The District can recapture the abated taxes if the developer becomes delinquent on any property taxes due, and fails to make health insurance available to employees. The abatements amount to $59,346 and $42,531, respectively.

(C) A 75% property tax reduction on increases in taxable values from the base year valuation to developers of two wind power projects. In return for the abatements, the developers agree to complete the construction of the projects approved within a reasonable period and to continue operations for the 20 year abatement period. The District can recapture the abated taxes on any removed improvements from the date of abatement election. The abatements amounted to $497,338 and $558,067, respectively.

(D) A 100% property tax reduction on increases in taxable values from the base year valuation to developers of two wind power projects that started in 2020. In return for the abatements, the developers agree to complete the construction of the projects approved within a reasonable period and to continue operations for the 10 year abatement period. The District can recapture the abated taxes on any removed improvements from the date of abatement election. The abatements amounted to $49,987 in 2020.

Risk Management

The District is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The District is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Patient Accounts Receivable

The District reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The District provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method or market.

Capital Assets

Capital assets are recorded at cost at the date of acquisition or acquisition value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are amortized over the shorter of the lease term or their respective estimated useful lives. The following estimated useful lives are being used by the District:

Land improvements	5 – 25 years
Buildings and leasehold improvements	25 – 40 years
Equipment	3 – 20 years

Compensated Absences

District policies permit most employees to accumulate vacation benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits and are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using regular pay and termination rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Defined Benefit Pension Plan

The District has an agent multiple-employer defined benefit pension plan through the Texas County and District Retirement System (TCDRS). For purposes of measuring the net pension asset (liability), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows and Inflows of Resources

Transactions not meeting the definition of an asset or liability that result in the consumption or acquisition of net position in one period that are applicable to future periods are reported as deferred outflows of resources or deferred inflows of resources. Debt advance refunding differences are recognized over the remaining life of the refunded bonds. Certain pension and bond defeasance related transactions are reported as deferred outflows of resources and deferred inflows of resources and are recognized in subsequent periods as disclosed in *Note 11* and in *Note 8*, respectively.

Net Position

Net position of the District are classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted for pension represents assets restricted for providing contributions to the agent multiple-employer defined benefit pension plan which provides pensions in accordance with the benefit terms of the plan. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

Net Patient Service Revenue

The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The District provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the District does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Tobacco Settlement

Tobacco settlement revenue is the result of a settlement between various counties and hospital districts in Texas and the tobacco industry for tobacco-related health care costs. The District received $95,198 and $97,524 in revenue from this settlement for the years ended September 30, 2020 and 2019, respectively.

Income Taxes

As an essential government function, the District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and similar provisions of state law. However, the District is subject to federal income tax on any unrelated business taxable income.

Revision

The 2019 financial statements has been revised for an immaterial reporting error in net position components on the balance sheet. The revision increased net investments in capital assets net position by $2,589,243 and reduced unrestricted net position by $2,589,243.

Note 2: Net Patient Service Revenue

The District has agreements with third-party payers that provide for payments to the District at amounts different from its established rates. These payment arrangements include:

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates. These rates vary according to a patient classification system that is based on clinical, diagnostic and other factors. The District is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare administrative contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The District is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid administrative contractor.

Approximately 58% and 54% of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for both years ended September 30, 2020 and 2019, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

The District has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the District under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

In January 2019, the Board approved to cease and discontinue operations of Hereford Regional Medical Center Home Health due to low census, difficulty hiring staff, and new regulations.

The District is a participating member of the Texas Panhandle Clinical Partners ACO, LLC (ACO), a taxable nonprofit corporation organized for operating an accountable care organization as defined in the Patient Protection and Affordable Care Act, as amended by the Health Care and Education Reconciliation Act of 2012. The District has accrued a shared savings distribution based on the quality performance results of the ACO in the amount of $0 and $115,000 as of September 30, 2020 and 2019, which is reported in estimated amounts due from third-party payers on the balance sheet.

Medicaid Transformation Waiver

In response to the growing number of uninsured patients and the rising cost of health care, the Texas Legislature established a Texas Medicaid Disproportionate Share Program (DSH Program) that was designed to assist those facilities serving the majority of the indigent patients by providing funds supporting increased access to health care within the community. This program allows the Texas Department of Human Services to levy assessments from certain hospitals, use the assessed funds to obtain federal matching funds, and then redistribute the total funds to those facilities serving a disproportionate share of indigent patients in the state of Texas.

The Waiver was originally effective from December 12, 2011 to September 30, 2016 and extended through December 2017 as HHSC and CMS negotiated a longer term extension. On December 21, 2017, HHSC received an approved extension from CMS for the period of January 1, 2018 through September 30, 2022. Among other changes, the approved plan required a change in the methodology used to allocate UC funds and a phase out of the DSRIP program over the five year period. On November 30, 2020, CMS approved an additional extension to extend the Waiver for an additional ten year period through September 30, 2030. This latest extension ends the DSRIP pool effective on September 30, 2021 as well as other administrative changes to reflect CMS policy changes. The impact of these changes has not yet been determined, but could have an adverse impact on the District's future operating results.

Total funding received through the Texas Medicaid supplemental funding program was approximately $2,937,000 and $2,860,000 for the years ended September 30, 2020 and 2019, respectively, which is included in net patient service revenue in the statements of revenues, expenses and changes in net position. Amounts receivable under these programs was approximately $73,000 and $77,000 at September 30, 2020 and 2019, respectively, which is included in the estimated amounts due from third party payers in the balance sheets. The funding the District has received is subject to audit and is not representative of funding to be received in future years.

In 2018, the District began to participate in the Uniform Hospital Rate Increase Program (UHRIP). Under UHRIP, HHSC may direct managed care organizations in a service delivery area to provide a uniform percentage rate increase to all hospitals within a particular class of hospitals, increasing revenue from services provided to Medicaid managed care beneficiaries. The state's share of UHRIP funding is funded through intergovernmental transfers from certain hospitals. The revenue from UHRIP is recognized as a component of patient service revenue. At September 30, 2020 and 2019, the District had prepaid UHRIP funding of approximately $210,000 and $0, which is included in prepaid expenses and other in the balance sheets.

The funding from the uncompensated care funding pool is limited by a federally determined Hospital Specific Limit (HSL) calculation, and CMS issued a ruling that that payments received from Medicare and private insurance should be subtracted when determining the costs of caring for Medicaid-eligible patients. This ruling would substantially reduce the HSL and in turn the amounts some hospitals receive under the DSH and related UC programs. There has been significant litigation in the U.S. District (District Court) and circuit appellate courts regarding the legislative intent of certain aspects of the HSL calculation. On August 13, 2019, the D.C. Circuit Court of Appeals issued an opinion in the case of *Children's Hospital Association of Texas vs. HHS (CHAT)* that held that the HSL should be reduced by payments received from other third-party payers related to Medicaid eligible patients and remanded the case back to the District Court. The District Court's final ruling on this case was issued in November 2020, and hospitals in Texas lost the challenge to the HHS ruling which was reinstated back to the rule's original 2017 effective date. The Hospital has recorded an expected overpayment related to this ruling of approximately $233,000 included in estimated amounts due from third-party payers on the balance sheet.

The programs described above are subject to review and scrutiny by both the Texas Legislature and CMS and the programs could be modified or terminated based on new legislation or regulation in future periods. The funding received is also subject to audit by the Medicaid Administrative Contractor. As a result, it is reasonably possible that recorded estimates could change materially in the near term.

Note 3: Deposits

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities or the state of Texas; bonds of any city, county, school district or special road district of the state of Texas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits.

At September 30, 2020 and 2019, all of the District's cash balances were fully secured.

Note 4: Patient Accounts Receivable

The District grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at September 30 consisted of:

	2020	2019
Medicare	$ 622,073	$ 649,652
Medicaid	472,408	782,968
Other third-party payers	1,914,923	1,227,867
Patients	4,586,269	2,638,188
	7,595,673	5,298,675
Less allowance for uncollectible accounts	(5,600,000)	(3,210,000)
	$ 1,995,673	$ 2,088,675

Note 5: Capital Assets

Capital assets activity for the years ended September 30 was:

	2020				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 155,099	$ -	$ -	$ -	$ 155,099
Land improvements	1,639,404	-	-	-	1,639,404
Buildings and improvements	33,293,495	-	-	1,225,072	34,518,567
Equipment	10,181,989	381,410	-	94,733	10,658,132
Construction in progress	139,106	1,352,636	-	(1,319,805)	171,937
	45,409,093	1,734,046	-	-	47,143,139
Less accumulated depreciation					
Land improvements	1,115,433	86,554	-	-	1,201,987
Buildings and improvements	10,689,369	1,176,494	-	-	11,865,863
Equipment	7,686,848	949,606	-	-	8,636,454
	19,491,650	2,212,654	-	-	21,704,304
Capital assets, net	$ 25,917,443	$ (478,608)	$ -	$ -	$ 25,438,835

	2019				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	$ 155,099	$ -	$ -	$ -	$ 155,099
Land improvements	1,639,404	-	-	-	1,639,404
Buildings and improvements	33,847,515	-	(554,020)	-	33,293,495
Equipment	10,027,050	219,066	(64,127)	-	10,181,989
Construction in progress	7,773	131,333	-	-	139,106
	45,676,841	350,399	(618,147)	-	45,409,093
Less accumulated depreciation					
Land improvements	1,020,757	94,676	-	-	1,115,433
Buildings and improvements	9,532,351	1,157,018	-	-	10,689,369
Equipment	6,855,804	870,666	(39,622)	-	7,686,848
	17,408,912	2,122,360	(39,622)	-	19,491,650
Capital assets, net	$ 28,267,929	$ (1,771,961)	$ (578,525)	$ -	$ 25,917,443

Note 6: Medical Malpractice Claims

The District is a unit of government covered by the Texas Tort Claims Acts which, by statute, limits its malpractice liability to $100,000 per person/$300,000 per occurrence. These limits coincide with the malpractice insurance coverage maintained by the District.

The District purchases medical malpractice insurance under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents.

Based upon the District’s claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Employee Health Claims

Substantially all of the District's employees and their dependents are eligible to participate in the District's employee health insurance plan. The District is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of $55,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims including both claims reported and claims incurred but not yet reported and is recorded in accrued expenses on the balance sheet. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the District's estimate will change by a material amount in the near term.

Activity in the District's accrued employee health claims liability during 2020 and 2019 is summarized as follows:

	2020	2019
Balance, beginning of year	$ 144,000	$ 150,000
Current year claims incurred and changes in estimates for claims incurred in prior years	1,029,513	1,420,905
Claims and expenses paid	(1,029,513)	(1,426,905)
Balance, end of year	$ 144,000	$ 144,000

Note 8: Long-term Debt

The following is a summary of long-term debt transactions for the District for the years ended September 30:

	2020				
	Beginning Balance	Additions	Deductions/ Amortization	Ending Balance	Current Portion
Revenue bonds payable					
Series 2010	$ 590,000	$ -	$ (590,000)	$ -	$ -
Series 2017	24,395,000	-	(160,000)	24,235,000	769,625
Series 2017 - Bond Premium	1,308,858	-	(157,631)	1,151,227	-
Capital lease obligations	24,832	-	(14,457)	10,375	10,375
PPP Loan	-	1,981,582	-	1,981,582	1,092,660
Total long-term debt	$ 26,318,690	$ 1,981,582	$ (922,088)	$ 27,378,184	$ 1,872,660

	2019				
	Beginning Balance	Additions	Deductions/ Amortization	Ending Balance	Current Portion
Revenue bonds payable					
Series 2010	$ 1,150,000	$ -	$ (560,000)	$ 590,000	$ 590,000
Series 2017	24,550,000	-	(155,000)	24,395,000	160,000
Series 2017 - Bond Premium	1,468,128	-	(159,270)	1,308,858	-
Capital lease obligations	51,299	-	(26,467)	24,832	22,118
Total long-term debt	$ 27,219,427	$ -	$ (900,737)	$ 26,318,690	$ 772,118

Capital Lease Obligations

The District is obligated under a lease for equipment that is accounted for as a capital lease. Assets under capital leases at September 30, 2020, totaled $64,363, net of accumulated amortization of $35,400. The following is a schedule by year of future minimum lease payments under the capital lease including interest at a rate of 5.4% together with the present value of the future minimum lease payments as of September 30, 2020:

Year Ending September 30,		
2021	$	10,505
Total minimum lease payments		10,505
Less amount representing interest		130
Present value of future minimum lease	$	10,375

Series 2010 General Obligation Bonds

The Series 2010 bonds consisted of General Obligation Bonds in the original amount of $28,000,000 dated March 25, 2010, which bear interest at 4.00% to 5.45%. Principal payments on the 2010 bonds, including mandatory annual sinking fund redemptions, occur through 2040. The bonds are a direct obligation of the District and are payable from the levy and collection of property taxes. The proceeds were used for the construction of replacement hospital facility and equipping of the replacement facility. The Series 2010 bond was paid off as of September 30, 2020. A portion of the bonds were advance refunded through issuance of the Series 2017 bond as discussed below.

Series 2017 General Obligation Refunding Bonds

The District issued the Series 2017 bonds consist of General Obligation Refunding Bonds in the original amount of $24,715,000 dated August 1, 2017, which bear interest at 3% to 5%. Principal payments on the 2017 bonds, including mandatory annual sinking fund redemptions, occur through 2040. All of the bonds still outstanding may be redeemed at the District’s option on or after March 1, 2027, at a redemption price of par plus accrued interest to the date of redemption. The bonds are a direct obligation of the District and are payable from the levy and collection of property taxes. The proceeds were used for the refunding of the Series 2010 bonds that matured after 2021.

The net proceeds of $25.9 million (after payment of $411,000 in underwriting fees, insurance, and other issuance costs) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2010 Series bonds maturing after 2021. Accordingly, the trust account assets and the liability for the defeased bonds are not included in the District’s financial statements. At September 30, 2019, $23.2 million of bonds outstanding were considered defeased, but have been fully refunded as of September 30, 2020.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of $2.7 million. This difference, included in the accompanying balance sheet with deferred outflows of resources, is being charged to operations through the year 2040 using the straight-line method. The District completed the advance refunding to reduce its total debt service payments over the next 23 years by $7.5 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $2.9 million.

The debt service requirements as of September 30, 2020, are as follows:

Year Ending September 30,	Total to be Paid	Principal	Interest
2021	$ 1,803,300	$ 769,625	$ 1,033,675
2022	1,811,875	810,000	1,001,875
2023	1,814,425	850,000	964,425
2024	1,814,900	885,000	929,900
2025	1,812,975	910,000	902,975
2026 – 2030	9,059,238	5,170,000	3,889,238
2031 – 2035	9,056,775	6,620,000	2,436,775
2036 – 2040	9,067,375	8,220,375	847,000
	$ 36,240,863	$ 24,235,000	$ 12,005,863

Paycheck Protection Program Loan

During May 2020, the District obtained a loan under the paycheck protection program (PPP). The PPP loan is due May 4, 2022, with monthly interest payments at 1.00% and monthly principal payments beginning December 4, 2020. The District intends to apply for forgiveness of the PPP loan subsequent to year-end. In the event the loan is not forgiven, the debt service requirements as of September 30, 2020, are as follows:

Years Ending September 30,	Total to be Paid	Principal	Interest
2021	$ 1,115,384	$ 1,092,660	$ 22,724
2022	892,308	888,922	3,386
Total PPP Loan	$ 2,007,692	$ 1,981,582	$ 26,110

Note 9: Charity Care

The District provides charity care to patients who are unable to pay for services. The cost of charity care provided during the years ended September 30, 2020 and 2019, totaled $1,144,914 and $1,933,105, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 10: Deferred Compensation Plan

The 457 Deferred Compensation Program (the 457 Plan) is a deferred compensation plan and is offered to District employees who are at least 21 years of age. The 457 Plan is administered by Principal Financial Group. The employee contributions to the 457 Plan were approximately $49,000 and $54,700 for the years ended September 30, 2020 and 2019, respectively. The District did not contribute to this plan.

Note 11: Pension Plan

Plan Description

The District contributes to an agent multi-employer defined benefit pension plan (the Plan) covering all employees. The Plan is administered by a board of trustees appointed by TCDRS. Benefit provisions are contained in the plan document and were established and can be amended by action of the District's governing body within the options available in the state statutes governing TCDRS. The Plan does not issue a separate report that includes financial statements and required supplementary information for the plan. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034 or from the website www.tcdrs.org.

Benefits Provided

The Plan provides retirement, disability and survivor benefits to plan members and their beneficiaries. Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the District within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the commitment of the District to contribute to the plan. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS.

Members can retire at ages 60 and above with 8 or more years of service or with 30 years regardless of age, or when the sum of their age and years of service equals 75 or more. A member is vested after 8 years but must leave his accumulated contributions in the plan to receive any employer-financed benefit. If a member withdraws his personal contributions in a lump sum, he is not entitled to any amounts contributed by the employer.

The employees covered by the Plan at December 31, 2019 and 2018 (measurement dates), are:

	2019	2018
Inactive employees or beneficiaries currently receiving benefits	52	51
Inactive employees entitled to but not yet receiving benefits	373	341
Active employees	178	193
	603	585

Contributions

The District's governing body has the authority to establish and amend the contribution requirements of the District and active employees.

The District establishes rates based on the annually determined rate plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both the employee members and the employer based on the covered payroll of employee members. Plan members are required to contribute 5% of their annually covered salary. Under the TCDRS Act, rates are based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the years ended September 30, 2020 and 2019, employees contributed $366,000 and $366,238, or 5% of annual pay, respectively, and the District contributed $229,256 and $211,219, or 2.7% and 2.5%, respectively, of annual pay to the Plan.

Net Pension Liability (Asset)

The District's net pension liability (asset) as of September 30, 2020 and 2019, was measured as of December 31, 2019 and 2018, respectively, and the total pension liability used to calculate the net pension liability (asset) was determined by actuarial valuations as of those dates.

The total pension liability in the December 31, 2019 and 2018 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75% in 2019 and 2018
Salary increases	Varies by age, 4.9% average over career, including inflation
Ad hoc cost of living adjustments	Not included
Investment rate of return	8.00% in 2019 and 2018, net of administrativ and investment expense, including inflation

Assumed life expectations are based on projection of 110% of the MP-2014 Ultimate Scale.

The actuarial assumptions used in the December 31, 2019 and 2018, valuation were based on the results of an actuarial experience study for the period January 1, 2013 through December 31, 2016.

The long-term expected rate of return on pension plan investments was based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information. The target allocation and best estimates of rates of return for each major asset class, as of January 2020, are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equities		
U.S. Equities	14.5%	5.20%
International Equities — Developed	7.0%	5.20%
International Equities — Emerging	7.0%	5.70%
Global Equities	2.5%	5.50%
Hedge Funds	8.0%	2.30%
High-Yield Investments		
Strategic Credit	12.0%	3.14%
Distressed Debt	4.0%	6.90%
Direct Lending	11.0%	7.16%
Private Equity	20.0%	8.20%
Real Assets		
REITs	3.0%	4.50%
Private Real Estate Partnerships	6.0%	5.50%
Master Limited Partnerships	2.0%	8.40%
Investment-Grade Bonds	3.0%	-0.20%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 8.10 percent for the years ended December 31, 2019 and 2018. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that employer contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the total pension liability, plan fiduciary net position and the net pension liability (asset) for the years ended September 30, 2020 and 2019 are:

	Increase (Decrease)		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (Asset) (a) - (b)**
Balances at September 30, 2019	$ 14,093,909	$ 13,427,008	$ 666,901
Changes for the year:			
Service cost	585,336	-	585,336
Interest on total pension liability	1,160,247	-	1,160,247
Effect of economic/demographic	(180,632)	-	(180,632)
Refund of contributions	(191,741)	(191,741)	-
Benefit payments	(532,786)	(532,786)	-
Administrative expenses	-	(11,832)	11,832
Member contributions	-	422,639	(422,639)
Net investment income	-	2,205,075	(2,205,075)
Employer contributions	-	210,474	(210,474)
Other changes	-	(967)	967
Net changes	840,424	2,100,862	(1,260,438)
Balances at September 30, 2020	$ 14,934,333	$ 15,527,870	$ (593,537)

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at September 30, 2018	$ 13,071,022	$ 13,665,313	$ (594,291)
Changes for the year:			
Service cost	588,078	-	588,078
Interest on total pension liability	1,082,534	-	1,082,534
Effect of economic/demographic	(47,053)	-	(47,053)
Refund of contributions	(138,142)	(138,142)	-
Benefit payments	(462,530)	(462,530)	-
Administrative expenses	-	(10,785)	10,785
Member contributions	-	420,767	(420,767)
Net investment income	-	(254,306)	254,306
Employer contributions	-	204,879	(204,879)
Other changes	-	1,812	(1,812)
Net changes	1,022,887	(238,305)	1,261,192
Balances at September 30, 2019	$ 14,093,909	$ 13,427,008	$ 666,901

The net pension liability of the District has been calculated using a discount rate of 8.1 percent. The following presents the net pension (asset) liability using a discount rate 1.0 percent higher and 1.0 percent lower than the current rate.

	1% Decrease (7.10%)	Current Discount Rate (8.10%)	1% Increase (9.10%)
District's net pension (asset) liability	$ 1,495,351	$ (593,537)	$ (2,313,182)

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended September 30, 2020 and 2019, the District recognized pension expense of $273,038 and $414,581, respectively. At September 30, 2020 and 2019, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2020	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ -	$ 136,106
Net difference between projected and actual earnings on pension plan investments	-	372,579
Contributions subsequent to the measurement date	172,597	-
	$ 172,597	$ 508,685

	2019	
	Deferred Outflows of Resources	**Deferred Inflows of Resources**
Differences between expected and actual experience	$ -	$ 83,315
Changes of assumptions	52,409	-
Net difference between projected and actual earnings on pension plan investments	845,222	-
Contributions subsequent to the measurement date	153,555	-
	$ 1,051,186	$ 83,315

At September 30, 2020 and 2019, the District reported $172,597 and $153,555, respectively, as deferred outflows of resources related to pensions resulting from the District contributions made subsequent to the measurement date that will be recognized as a reduction of the net pension liability at September 30, 2021 and 2020. Other amounts reported as deferred outflows of resources and deferred inflows of resources at September 30, 2020, related to pensions, will be recognized in pension expense as follows:

Year ending September 30:		
2021	$	(165,783)
2022		(166,619)
2023		48,043
2024		(224,326)
	$	(508,685)

Pension Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately issued financial report of TCDRS for the years ended December 31, 2019 and 2018.

Note 12: Contributed Services

The District signed an indigent care affiliation agreement with the Service Organization of West Texas (SOWT), a non-profit corporation, and affiliated hospitals. This agreement is intended to increase funding through the Medicaid population and to access federal funding for the indigent population through the Medicaid section 1115(a) demonstration. Under this program, the District contributes certain government funds to the state of Texas. SOWT then provides services through the District for indigent care in Deaf Smith County. During the year September 30, 2019, the District ended participation in the affiliation. The services provided through the SOWT were valued at approximately $937,000 for the year ended September 30, 2019. As part of the affiliation agreement, the District provided no funding during the year ended September 30, 2019.

Note 13: Impairment Loss

During the year ended September 30, 2019, the District experienced hail damage and flooding inside the hospital facility that damaged parts of the building and equipment. This event was covered under the District's property insurance policy. The District received insurance proceeds of approximately $410,000 and $848,000 as of September 30, 2020 and 2019, respectively. Below is a summary of the costs and insurance proceeds related to the event:

Loss on impairment of roof	$	(544,832)
Loss on disposal of minor equipment		(29,099)
Insurance proceeds		1,256,273
	$	682,342

Note 14: Future Change in Accounting Principle

GASB Statement No. 84, Fiduciary Activities

GASB Statement No. 84, *Fiduciary Activities* (GASB 84), establishes criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. An activity meeting the criteria should be reported in a fiduciary fund in the basic financial statements. Governments with activities meeting the criteria should present a statement of fiduciary net position and a statement of changes in fiduciary net position. An exception to that requirement is provided for a business-type activity that normally expects to hold custodial assets for three months or less. GASB 84 is effective for the District's fiscal year ending September 30, 2021.

GASB Statement No. 87, Leases

GASB Statement No. 87, *Leases* (GASB 87), provides a new framework for accounting for leases under the principle that leases are financings. Leases will no longer be classified between capital and operating. Lessees will recognize an intangible asset and a corresponding liability. The liability will be based on the payments expected to be paid over the lease term, which includes an evaluation of the likelihood of exercising renewal or termination options in the lease. Lessors will recognize a lease receivable and related deferred inflow of resources. Lessors will not derecognize the underlying asset. An exception to the general model is provided for short-term leases that cannot last more than 12 months. Contracts that contain lease and nonlease components will need to be separated so each component is accounted for accordingly.

GASB 87 is effective for financial statements for the District's fiscal year ending September 30, 2022. Earlier application is encouraged. Governments will be allowed to transition using the facts and circumstances in place at the time of adoption, rather than retroactive to the time each lease was begun.

GASB Statement No. 89, Capitalized Interest

GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*, removes the concept of capitalized interest from all types of governmental entities. This Statement is effective for the District's fiscal year ending September 30, 2022, and will be applied prospectively.

Note 15: COVID-19 Pandemic and CARES Act Funding

On March 11, 2020, the World Health Organization designated the SARS-CoV-2 virus and the incidence of COVID-19 (COVID-19) as a global pandemic. Patient volumes and the related revenues were significantly affected by COVID-19 as various policies were implemented by federal, state, and local governments in response to the pandemic that led many people to remain at home and forced the closure of or limitations on certain businesses, as well as suspended elective procedures by health care facilities.

While some of these policies have been eased and states have lifted moratoriums on non-emergent procedures, some restrictions remain in place, and some state and local governments are re-imposing certain restrictions due to increasing rates of COVID-19 cases.

Beginning in mid-March, the District deferred all nonessential medical and surgical procedures and suspended elective procedures, which resumed at different dates during the final quarter of the fiscal year.

In addition, the District received approximately $1.1 million of accelerated Medicare payments and approximately $10.8 million in general and targeted Provider Relief Fund distributions, both as provided for under the *Coronavirus Aid, Relief, and Economic Security Act* (CARES).

The extent of the COVID-19 pandemic's adverse effect on the District's operating results and financial condition has been and will continue to be driven by many factors, most of which are beyond the District's control and ability to forecast. Such factors include, but are not limited to, the scope and duration of stay-at-home practices and business closures and restrictions, government-imposed or recommended suspensions of elective procedures, continued declines in patient volumes for an indeterminable length of time, increases in the number of uninsured and underinsured patients as a result of higher sustained rates of unemployment, incremental expenses required for supplies and personal protective equipment, and changes in professional and general liability exposure.

Because of these and other uncertainties, the District cannot estimate the length or severity of the effect of the pandemic on the District's business. Decreases in cash flows and results of operations may have an effect on the inputs and assumptions used in significant accounting estimates, including estimated bad debts and contractual adjustments related to uninsured and other patient accounts.

Provider Relief Fund

During the year ended September 30, 2020, the District received approximately $10,953,000 of distributions from the CARES Act Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the District is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services (HHS).

The District is accounting for such payments as conditional contributions. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the District's operating revenues and expenses through September 30, 2020, the District recognized approximately $78,000 of revenue related to the Provider Relief Fund. The unrecognized amount of Provider Relief Fund distributions are recorded as part of unearned revenue in the accompanying balance sheets.

Subsequent to year-end, HHS issued guidance on the use of payments from the Provider Relief Fund. The District considers the guidance issued subsequent to year-end to be substantive changes in guidance rather than clarifications of guidance existing at September 30, 2020. As a result, the amounts recorded in the financial statements compared to the District's Provider Relief Fund reporting could differ. This difference cannot be currently estimated but could be material.

The District will continue to monitor compliance with the terms and conditions of the Provider Relief Fund and the effect of the pandemic on the District's revenues and expenses. The terms and conditions governing the Provider Relief Funds are complex and subject to interpretation and change. If the District is unable to attest to or comply with current or future terms and conditions the District's ability to retain some or all of the distributions received may be affected. Provider Relief Fund payments are subject to government oversight, including potential audits.

Paycheck Protection Program (PPP) Loan

The CARES Act and other subsequent legislation also provides a Small Business Administration (SBA) loan designed to provide a direct incentive for small businesses to keep their workers on the payroll. The Payroll Protection Program (PPP) loans will be forgiven if all employee retention criteria are met and the funds are used for eligible expenses. The District received a PPP loan of $1,981,582 in May 2020. The loan has an interest rate of 1 percent, with monthly payments of $111,538 due monthly starting six months after the receipt of the loan. The loan, if not forgiven, matures on May 4, 2022.

The District is accounting for the PPP loan is accordance with GASB Statement 62. Interest is accrued in accordance with the loan agreement. Any forgiveness of the loan will be recognized as a gain in the financial statements in the period the debt is legally released. The PPP loan is included on the accompanying balance sheet as long-term debt in accordance with the term of the PPP loan agreement. See *Note 8* for additional information.

Medicare Accelerated & Advanced Payment Program

During the year ended September 30, 2020, the District requested accelerated Medicare payments as provided for in the CARES Act, which allows for eligible health care facilities to request up to six months of advance Medicare payments for acute care hospitals or up to three months of advance Medicare payments for other health care providers. These amounts are expected to be recaptured by CMS according to the payback provisions.

Effective September 30, 2020, the payback provisions were revised and extended the payback period to begin one year after the issuance of the advance payment through a phased payback period approach. The first 11 months of the payback period will be at 25 percent of the remittance advice payment followed by a six-month payback period at 50 percent of the remittance advice payment. After 29 months, CMS expects any amount not paid back through the withhold amounts to be paid back in a lump sum or interest will begin to accrue subsequent to the 29 months at a rate of 4 percent.

During the year ended September 30, 2020, the District received approximately $1,174,000 from these accelerated Medicare payment requests. The unapplied amount of accelerated Medicare payment requests are recorded under estimated amount due to third-party payers in the accompanying consolidated balance sheets.

Required Supplementary Information

Deaf Smith County Hospital District
d.b.a. Hereford Regional Medical Center
and Hereford Rural Health Clinic
Schedule of Changes in Net Pension Liability (Asset) and Related Ratios

	2019	2018	2017	2016	2015	2014
Total pension liability						
Service cost	$ 585,336	$ 588,078	$ 613,554	$ 554,183	$ 491,713	$ 381,013
Interest on total pension liability	1,160,247	1,082,534	1,001,512	915,182	856,738	735,656
Effect of plan changes	-	-	-	-	(113,195)	648,036
Effect of assumption changes or inputs	-	-	157,225	-	158,311	-
Effect of economic and demographic (gains) or losses	(180,632)	(47,053)	(155,838)	(213,969)	(171,549)	469,761
Benefit payments, including refunds of employee contributions	(724,527)	(600,672)	(581,123)	(483,684)	(533,333)	(464,633)
Net change in total pension liability	840,424	1,022,887	1,035,330	771,712	688,685	1,769,833
Total pension liability—beginning	14,093,909	13,071,022	12,035,692	11,263,980	10,575,295	8,805,462
Total pension liability—ending (a)	$ 14,934,333	$ 14,093,909	$ 13,071,022	$ 12,035,692	$ 11,263,980	$ 10,575,295
Plan fiduciary net position						
Contributions—employer	$ 210,474	$ 204,879	$ 197,509	$ 216,096	$ 211,941	$ 73,038
Contributions—employee	422,639	420,767	423,840	404,675	364,243	292,152
Net investment income (loss)	2,205,075	(254,306)	1,737,126	808,202	(37,815)	689,988
Benefit payments, including refunds of employee contributions	(724,527)	(600,671)	(581,123)	(483,684)	(533,333)	(464,633)
Administrative expense	(11,832)	(10,785)	(9,088)	(8,790)	(7,856)	(8,152)
Other	(967)	1,811	519	49,620	17,395	63,276
Net change in plan fiduciary net position	2,100,862	(238,305)	1,768,783	986,119	14,575	645,669
Plan fiduciary net position—beginning	13,427,008	13,665,313	11,896,530	10,910,411	10,895,836	10,250,167
Plan fiduciary net position—ending (b)	$ 15,527,870	$ 13,427,008	$ 13,665,313	$ 11,896,530	$ 10,910,411	$ 10,895,836
District's net pension liability (asset)—ending (a) – (b)	$ (593,537)	$ 666,901	$ (594,291)	$ 139,162	$ 353,569	$ (320,541)
Plan fiduciary net position as a percentage of the total pension liability	103.97%	95.27%	104.55%	98.84%	96.86%	103.03%
Covered payroll	$ 8,452,770	$ 8,415,347	$ 8,476,800	$ 8,093,497	$ 7,281,983	$ 7,303,808
District's net pension liability (asset) as a percentage of covered payroll	-7.02%	7.92%	-7.01%	1.72%	4.86%	-4.39%

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available. Information presented in this schedule has been determined as of the District's measurement date (December 31) of the net pension liability (asset) in accordance with GASB 68.

Deaf Smith County Hospital District
d.b.a. Hereford Regional Medical Center
and Hereford Rural Health Clinic
Schedule of District Contributions

Year Ending September 30,	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered payroll *(1)*	Contributions as a percentage of covered payroll
2020	$ 229,256	$ 229,256	$ -	$ 8,499,919	2.7%
2019	$ 211,219	$ 211,219	$ -	$ 8,481,784	2.5%
2018	$ 153,193	$ 153,193	$ -	$ 6,127,732	2.5%
2017	$ 187,958	$ 187,958	$ -	$ 7,841,921	2.4%
2016	$ 224,041	$ 224,041	$ -	$ 8,278,701	2.7%
2015	$ 196,429	$ 196,429	$ -	$ 7,356,891	2.7%

Notes to Schedule:

(1) TCDRS calculates actuarially determined contributions on a calendar year basis. GASB Statement No. 68 indicates the employer should report employer contributions amounts on a fiscal year basis.

(2) Payroll is calculated based on contributions as reported to TCDRS.

Valuation date:

Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age
Amortization method	Level-percentage-of covered payroll, closed
Remaining amortization period	15.7 years (based on contribution rate calculated in 12/31/2019 valuation)
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	Varies by age and service. 4.9% average over career including inflation.
Investment rate of return	8%, net of administrative and investment expense, including inflation
Retirement age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions	2015: Employer contributions reflect that the member contribution rate was increased to 5% and the current service matching rate was increased to 120%. 2016: No changes in plan provisions were reflected in the schedule. 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017. 2018: No changes in plan provisions were reflected in the schedule. 2019: No changes in plan provisions were reflected in the schedule.