

Graham Hospital District
d/b/a Graham Regional Medical Center
Independent Auditor's Reports and Financial Statements
September 30, 2021 and 2020

Independent Auditor's Report

Board of Directors
Graham Hospital District
d/b/a Graham Regional Medical Center
Graham, Texas

We have audited the accompanying financial statements of Graham Hospital District (the District) d/b/a Graham Regional Medical Center, as of and for the years ended September 30, 2021 and 2020, 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. Our 2021 audit also was conducted in accordance with the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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, 2021 and 2020, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information listed in the table of contents be presented to supplement the basic financial statements. Such 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.

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 audits 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 also have issued our report dated March 28, 2022, 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.

BKD, LLP

Waco, Texas
March 28, 2022

Graham Hospital District

d/b/a Graham Regional Medical Center

Management's Discussion and Analysis

Years Ended September 30, 2021 and 2020

Introduction

This management's discussion and analysis of the financial performance of Graham Hospital District (the District) d/b/a Graham Regional Medical Center provides an overview of the District's financial activities for the years ended September 30, 2021 and 2020. It should be read in conjunction with the accompanying financial statements of the District.

Financial Highlights

- Cash decreased in 2021 by \$199,140, or 1.7%, and increased in 2020 by \$8,353,106, or 242.2%.
- The District's net position increased in 2021 by \$6,097,212, or 58.4%, and increased by \$1,137,402, or 12.2%, in 2020.
- The District reported operating losses in 2021 of \$2,629,825 and in 2020 of \$4,382,659. The operating loss in 2021 decreased by \$1,752,834, or 40.0%, over the operating loss reported in 2020. The operating loss in 2020 increased by \$1,234,296, or 39.2%, from the operating loss reported in 2019.
- Net nonoperating revenues increased by \$1,669,964, or 31.6%, in 2021 compared to 2020 and increased by \$1,239,668, or 30.6%, in 2020 compared to 2019.

Using This Annual Report

The District's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These statements provide information about the activities of the District, including resources held by the District but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The District is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

One of the most important questions asked about any hospital's finances is, "Is the hospital as a whole better or worse off as a result of the year's activities?" The Balance Sheet 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, deferred outflows of resources and all liabilities and deferred inflows of resources using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. The District's total net position—the difference between its assets and deferred outflows of resources and its liabilities and deferred inflows of resources—is one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position is an indicator of whether its financial health is improving or deteriorating.

Other nonfinancial factors, such as changes in the District’s patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors, should also be considered to assess the overall financial health of the District.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from four defined types of 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 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 accompanying balance sheets. The District’s net position increased by \$6,097,212, or 58.4%, in 2021 over 2020 and increased by \$1,137,402, or 12.2%, in 2020 over 2019 as shown in Table 1.

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

	2021	2020	2019
Assets and Deferred Outflows of Resources			
Cash	\$ 11,603,008	\$ 11,802,148	\$ 3,449,042
Patient accounts receivable, net	1,673,453	1,630,330	1,654,456
Other current and noncurrent assets	1,505,180	1,101,714	2,640,874
Capital assets, net	8,194,420	8,476,298	8,230,272
Net pension asset	693,797	923,172	578,724
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Total assets	23,669,858	23,933,662	16,553,368
Deferred Outflows of Resources - Pensions			
	381,578	118,608	352,735
	<hr/>	<hr/>	<hr/>
Total assets and deferred outflows of resources	\$ 24,051,436	\$ 24,052,270	\$ 16,906,103
Liabilities			
Long-term debt	\$ 894,180	\$ 1,859,516	\$ 1,531,435
Other current and noncurrent liabilities	6,409,851	11,419,504	5,705,057
	<hr/>	<hr/>	<hr/>
Total liabilities	7,304,031	13,279,020	7,236,492
Deferred Inflows of Resources - Pensions			
	200,846	323,903	357,666
Net Position			
Net investment in capital assets	7,015,148	6,944,862	6,349,996
Restricted	749,856	948,731	646,230
Unrestricted	8,781,555	2,555,754	2,315,719
	<hr/>	<hr/>	<hr/>
Total net position	16,546,559	10,449,347	9,311,945
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Total liabilities, deferred inflows of resources and net position	\$ 24,051,436	\$ 24,052,270	\$ 16,906,103
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A significant change in the District's 2021 assets is the increase in other current assets, due to an increase in estimated amounts due from third-party payers for amounts recorded as receivables related to the 1115 Waiver program. See *Note 2*.

A significant change in the District's 2020 assets is the increase in cash, due to the receipt of Provider Relief Funds and Medicare Advance Payments. Included in other current and noncurrent liabilities in 2020 are payables associated with Medicare Advance Payments and Provider Relief Funds received in advance. The District also had current and noncurrent liabilities associated with Medicare Advance Payments at September 30, 2021. See *Note 14*.

Operating Results and Changes in the District's Net Position

In 2021, the District's net position increased by \$6,097,212, or 58.4%, as shown in Table 2. This increase is made up of several different components and represents an increase of \$4,959,810, or 436.1%, compared with the increase in net position for 2020 of \$1,137,402. The District's change in net position declined from an increase of \$1,251,704 in 2019 to an increase of \$1,137,402 in 2020.

Table 2: Operating Results and Changes in Net Position

	2021	2020	2019
Operating Revenues			
Net patient service revenue	\$ 20,656,751	\$ 16,790,001	\$ 16,539,455
Other	401,786	383,992	513,012
Total operating revenues	<u>21,058,537</u>	<u>17,173,993</u>	<u>17,052,467</u>
Operating Expenses			
Salaries, wages and employee benefits	10,541,383	9,347,163	8,913,619
Purchased services and professional fees	6,484,300	6,726,511	6,045,843
Depreciation	980,217	903,166	1,003,343
Supplies and other	5,682,462	4,579,812	4,238,025
Total operating expenses	<u>23,688,362</u>	<u>21,556,652</u>	<u>20,200,830</u>
Operating Loss	<u>(2,629,825)</u>	<u>(4,382,659)</u>	<u>(3,148,363)</u>
Nonoperating Revenues			
Property taxes	3,070,241	3,302,566	3,214,248
Investment income	9,045	193,405	4,158
Interest expense	(74,314)	(157,490)	(135,879)
Contributed services	587,000	1,482,473	788,983
Gain (loss) on disposal of capital assets	-	-	61,420
Noncapital grants and gifts	-	95,781	46,287
Provider Relief Fund	3,315,886	-	-
Other nonoperating revenue	55,141	376,300	74,150
Total nonoperating revenues	<u>6,962,999</u>	<u>5,293,035</u>	<u>4,053,367</u>
Capital Grants and Gifts and Special Items			
Special item - Forgiveness of PPP loan	1,732,538	-	-
Capital grants and gifts	31,500	227,026	346,700
Total capital grants and gifts and special items	<u>1,764,038</u>	<u>227,026</u>	<u>346,700</u>
Increase in Net Position	<u>\$ 6,097,212</u>	<u>\$ 1,137,402</u>	<u>\$ 1,251,704</u>

Operating Losses

The first component of the overall change in the District's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the District has reported an operating loss. This is consistent with the District's recent operating history as the District was formed and is operated primarily to serve residents of Young County and the surrounding area. The District levies property taxes to provide resources to assist the District in serving lower income and other residents.

The operating loss for 2021 decreased by \$1,752,834, or 40.0%, as compared to 2020. The primary components of the decreased operating loss are:

- An increase in net patient service revenue of \$3,866,750, or 23.0%, due to an increase in patient volumes.
- An increase in salaries, wages and employee benefits of \$1,194,220, or 12.8%, primarily attributable to the addition of retention and incentive bonuses for certain employees.
- An increase in supplies and other of \$1,102,650, or 24.1%, due to an increase in patient volumes and continued impact of the COVID-19 pandemic.

The operating loss for 2020 increased by \$1,234,296, or 39.2%, as compared to 2019. The primary components of the increased operating loss are:

- An increase in net patient service revenue of \$250,546, or 1.5%. This increase in net patient service revenue was modest primarily due to a decrease in volumes as a result of the COVID-19 pandemic. See *Note 14*.
- An increase in salaries, wages and employee benefits of \$433,544, or 4.9%, and purchased services and professional fees of \$680,668, or 11.3%, primarily attributable to the COVID-19 pandemic. See *Note 14*.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the District and contributed services. Property tax revenue decreased in 2021 by \$232,325, or 7.0%, compared to 2020 and contributed services decreased in 2021 by \$895,473, or 60.4%, compared to 2020. The decrease in contributed services is primarily due to the decrease in the portion of funding provided by affiliates as discussed in *Note 2*. Provider Relief Fund revenue was recorded in 2021 of \$3,315,886, as discussed in *Note 14*.

The District's Cash Flows

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

Capital Assets

At September 30, 2021 and 2020, the District had \$8,194,420 and \$8,476,298, respectively, invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2021 and 2020, the District purchased capital assets costing \$698,339 and \$1,149,192, respectively.

Debt

At September 30, 2021 and 2020, the District had \$1,179,272 and \$3,855,640, respectively, in lines of credit, notes payable and capital lease obligations outstanding. The District obtained a paycheck protection program loan in 2020 and the loan was formally forgiven in 2021, as detailed in *Notes 7* and *8* to the financial statements.

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. Questions about this report and requests for additional financial information should be directed to the District's administrator at Graham Regional Medical Center, 1301 Montgomery Road, Graham, Texas 76450.

Graham Hospital District
d/b/a Graham Regional Medical Center
Balance Sheets
September 30, 2021 and 2020

Assets and Deferred Outflows of Resources

	<u>2021</u>	<u>2020</u>
Current Assets		
Cash	\$ 11,603,008	\$ 11,802,148
Restricted cash	56,059	25,559
Patient accounts receivable, net of allowance; 2021 - \$5,572,000 and 2020 - \$4,835,000	1,673,453	1,630,330
Property taxes receivable	130,722	102,560
Estimated amounts due from third-party payers	598,762	154,051
Supplies	370,051	344,853
Prepaid expenses and other	<u>47,400</u>	<u>155,123</u>
Total current assets	<u>14,479,455</u>	<u>14,214,624</u>
 Capital Assets, Net	 8,194,420	 8,476,298
 Net Pension Asset	 693,797	 923,172
 Other Assets	 <u>302,186</u>	 <u>319,568</u>
Total assets	<u>23,669,858</u>	<u>23,933,662</u>
 Deferred Outflows of Resources - Pensions	 <u>381,578</u>	 <u>118,608</u>
Total assets and deferred outflows of resources	<u>\$ 24,051,436</u>	<u>\$ 24,052,270</u>

Liabilities, Deferred Inflows of Resources and Net Position

	<u>2021</u>	<u>2020</u>
Current Liabilities		
Current maturities of long-term debt	\$ 285,092	\$ 1,404,458
Accounts payable	629,537	855,336
Accrued expenses	984,475	565,242
Line of credit	-	591,666
Estimated amounts due to third-party payers, current	1,988,209	983,009
Provider Relief Funds received in advance	775,000	3,990,886
Patient credit balance payables and other	<u>643,378</u>	<u>578,429</u>
Total current liabilities	<u>5,305,691</u>	<u>8,969,026</u>
Noncurrent Liabilities		
Estimated amounts due to third-party payers	808,191	2,154,509
Self-funded malpractice	295,969	295,969
Long-term debt	<u>894,180</u>	<u>1,859,516</u>
Total noncurrent liabilities	<u>1,998,340</u>	<u>4,309,994</u>
Total liabilities	<u>7,304,031</u>	<u>13,279,020</u>
Deferred Inflows of Resources - Pensions	<u>200,846</u>	<u>323,903</u>
Net Position		
Net investment in capital assets	7,015,148	6,944,862
Restricted expendable for pension	693,797	923,172
Restricted expendable for capital assets	56,059	25,559
Unrestricted	<u>8,781,555</u>	<u>2,555,754</u>
Total net position	<u>16,546,559</u>	<u>10,449,347</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 24,051,436</u>	<u>\$ 24,052,270</u>

Graham Hospital District
d/b/a Graham Regional Medical Center
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2021 and 2020

	2021	2020
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2021 - \$3,034,000 and 2020 - \$3,665,000	\$ 20,656,751	\$ 16,790,001
Other	401,786	383,992
Total operating revenues	21,058,537	17,173,993
Operating Expenses		
Salaries and wages	9,208,285	8,287,506
Employee benefits	1,333,098	1,059,657
Purchased services and professional fees	6,484,300	6,726,511
Supplies and other	5,682,462	4,579,812
Depreciation	980,217	903,166
Total operating expenses	23,688,362	21,556,652
Operating Loss	(2,629,825)	(4,382,659)
Nonoperating Revenues (Expenses)		
Property taxes	3,070,241	3,302,566
Investment income	9,045	193,405
Interest expense	(74,314)	(157,490)
Contributed services	587,000	1,482,473
Noncapital grants and gifts	-	95,781
Provider Relief Fund	3,315,886	-
Other nonoperating revenue	55,141	376,300
Total nonoperating revenues	6,962,999	5,293,035
Excess of Revenues over Expenses Before Capital Grants and Gifts and Special Items	4,333,174	910,376
Capital Grants and Gifts and Special Items		
Special Item - Forgiveness of PPP loan	1,732,538	-
Capital grants and gifts	31,500	227,026
Total capital grants and gifts and special items	1,764,038	227,026
Increase in Net Position	6,097,212	1,137,402
Net Position, Beginning of Year	10,449,347	9,311,945
Net Position, End of Year	\$ 16,546,559	\$ 10,449,347

Graham Hospital District
d/b/a Graham Regional Medical Center
Statements of Cash Flows
Years Ended September 30, 2021 and 2020

	<u>2021</u>	<u>2020</u>
Operating Activities		
Receipts from and on behalf of patients	\$ 19,755,712	\$ 19,485,029
Payments to suppliers and contractors	(11,615,296)	(7,738,604)
Payments to employees	(10,269,039)	(9,480,449)
Other receipts, net	<u>454,224</u>	<u>331,421</u>
Net cash provided by (used in) operating activities	<u>(1,674,399)</u>	<u>2,597,397</u>
Noncapital Financing Activities		
Property taxes supporting operations	3,042,079	3,245,461
Proceeds from issuance of paycheck protection program loan	-	1,732,538
Principal paid on lines of credit	(591,666)	591,666
Interest paid on lines of credit	(74,081)	(74,081)
Noncapital grants and gifts	100,000	95,781
Provider Relief Fund receipts	-	3,990,886
Other	<u>55,141</u>	<u>376,300</u>
Net cash provided by noncapital financing activities	<u>2,531,473</u>	<u>9,958,551</u>
Capital and Related Financing Activities		
Capital grants and gifts	31,500	227,026
Principal paid on long-term debt	(352,164)	(348,840)
Interest paid on long-term debt	(9,996)	(84,240)
Purchase of capital assets	<u>(698,339)</u>	<u>(1,149,192)</u>
Net cash used in capital and related financing activities	<u>(1,028,999)</u>	<u>(1,355,246)</u>
Investing Activities		
Investment earnings	<u>3,285</u>	<u>10,457</u>
Net cash provided by investing activities	<u>3,285</u>	<u>10,457</u>
Increase (Decrease) in Cash	(168,640)	11,211,159
Cash, Beginning of Year	<u>11,827,707</u>	<u>3,516,548</u>
Cash, End of Year	<u>\$ 11,659,067</u>	<u>\$ 14,727,707</u>

Graham Hospital District
d/b/a Graham Regional Medical Center
Statements of Cash Flows (Continued)
Years Ended September 30, 2021 and 2020

	2021	2020
Reconciliation of Cash to the Balance Sheets		
Cash in current assets	\$ 11,603,008	\$ 11,802,148
Restricted cash	56,059	25,559
Total cash	\$ 11,659,067	\$ 11,827,707
Reconciliation of Operating Loss to		
Net Cash Provided By (Used in) Operating Activities		
Operating loss	\$ (2,629,825)	\$ (4,382,659)
Depreciation	980,217	903,166
Contributed services	587,000	1,482,473
Provision for uncollectible accounts	3,034,000	3,665,000
Changes in operating assets and liabilities:		
Patient accounts receivable	(3,077,123)	(3,640,874)
Estimated amounts due from and to third-party payers	(785,829)	2,913,613
Accounts payable and accrued expenses	203,197	(338,878)
Deferred outflows of resources - pensions	(262,970)	234,127
Deferred inflows of resources - pensions	(123,057)	(33,763)
Net pension liability	229,375	(344,448)
Other assets and liabilities	170,616	2,139,640
Net cash provided by (used in) operating activities	\$ (1,674,399)	\$ 2,597,397
Supplemental Cash Flows Information		
Forgiveness of debt	\$ 1,732,538	\$ -

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2021 and 2020

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

Nature of Operations and Reporting Entity

Graham Hospital District (the District) d/b/a Graham Regional Medical Center operates an acute care hospital located in Graham, Texas. The District primarily earns revenues by providing inpatient, outpatient, intermediate nursing and emergency care services for residents of Young County, Texas. It also operates physician clinics in the same geographic area. The District was formed as a hospital district in June 2013 under Article IX, Section 9, of the Texas Constitution and is governed by a seven-member board of directors elected by the citizens of Young County, Texas.

Graham Hospital Foundation (the Foundation) is a nonprofit health organization and was organized as a 501(c)(3) entity for the purpose of supporting and benefiting the District. The Foundation is a separate legal entity but is financially integrated with the District and is reported as a blended component unit of the District and does not issue separate financial statements. There were no significant activities or balances in the current year.

Basis of Accounting and Presentation

The accompanying 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 and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally, federal and state grants) 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, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The District first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position 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 outflows of resources, liabilities and deferred inflows of resources 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.

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2021 and 2020

Property Taxes

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. In 2021 and 2020, the District received approximately 11% and 15%, respectively, of its financial support from property taxes which is used to support operations.

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.

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2021 and 2020

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 depreciated 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	5–20 years
Buildings and improvements	5–40 years
Equipment	3–20 years

Compensated Absences

District policies permit most employees to accumulate personal paid leave 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 benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay 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 (the Plan). For purposes of measuring the net pension liability and deferred outflows or 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. Certain pension 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*.

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
September 30, 2021 and 2020

Net Position

Net position of the District is 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 expendable net position is noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the District. Unrestricted net position is remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

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.

Income Taxes

The District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the District is subject to federal income tax on any unrelated business taxable income. The Foundation is subject to federal income tax, but activity is insignificant.

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.

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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 certain 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 65% and 68%, respectively, of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for both the years ended September 30, 2021 and 2020. 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.

Supplemental Medicaid Funding

On December 12, 2011, the United States Department of Health and Human Services (HHSC) approved a Medicaid Section 1115(a) demonstration entitled “Texas Health Transformation and Quality Improvement Program” (Waiver). The Waiver expanded existing Medicaid managed care programs and established two funding pools that assist providers with uncompensated care costs (UC Pool) and promote health system transformation (DSRIP Pool). The revenue from the two funding pools is recognized as earned throughout the related demonstration year.

The Waiver was originally effective from December 12, 2011 to September 30, 2016 and extended through December 2017 as HHSC and the Center for Medicare and Medicaid Services (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 would have ended the DSRIP pool effective September 30, 2021, expanded and added other direct payment programs and makes other administrative changes to reflect CMS policy changes beginning September 1, 2021. On April 16, 2021, CMS rescinded the extension approval citing an improper exemption from the public notice and comment process originally granted. In August 2021, CMS indicated that the new directed payment programs would not be approved, but offered to HHSC that the Uniform Hospital Rate Increase Program (UHRIP) and DSRIP would be extended to September 30, 2022 while HHSC and CMS negotiated an extension and terms of the Waiver and new directed payment programs. In September 2021, HHSC accepted the terms of certain directed payment programs and an extension of the DSRIP pool through September 30, 2022. In November 2021, CMS notified HHSC that they did not believe HHSC accepted the August 2021 offer to extend UHRIP and DSRIP, in essence, the negotiations are stalled. HHSC is also seeking resolution through judicial action. The impact of these changes has not yet been determined, but could have an adverse impact on the District’s operating results.

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Under the Waiver, eligibility to receive UC Pool or DSRIP Pool payments requires participation in a regional health care partnership. Within a partnership, participants include governmental entities providing public funds known as intergovernmental transfers (IGTs), Medicaid providers and other stakeholders. Participants develop a regional plan that identifies partners, community needs, the proposed projects to meet those needs and funding distribution. Each partnership must have one anchoring entity, which acts as a primary point of contact for HHSC in the region and is responsible for seeking regional stakeholder engagement and coordinating development of a regional plan.

Total funding recognized through these programs was approximately \$2,066,000 and \$1,175,000 for the years ended September 30, 2021 and 2020, respectively, and is included with net patient service revenue on the statements of revenues, expenses and changes in net position.

The funding from the UC Pool has historically been limited by a federally determined Hospital Specific Limit (HSL) calculation and is subject to recoupment based on subsequent audit results. There has been litigation in U.S. district 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. Azar* that held that the HSL could 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 District has recorded an expected overpayment related to this ruling of approximately \$177,042 and \$500,000, respectively, for the years ended September 30, 2021 and 2020, which is included in estimated amounts due to third-party payers on the balance sheet.

The District also participates in 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, including the District. The net revenue from UHRIP is recognized as a component of net patient service revenue. The UHRIP program ended on August 31, 2021 and has yet to be extended.

These programs are subject to ongoing review by HHSC and the state of Texas and the funding is subject to recoupment based on future audits. The historical funding is not necessarily representative of funding the District will receive in future years.

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Indigent Care Affiliation

The District is part of an indigent care affiliation agreement with the Service Organization of Big Country and the Service Organization of North Texas, both of which are non-profit corporations (the Service Organizations). These agreements are intended to increase funding for the Medicaid population and to access federal funding for the indigent population. Under this program, the District contributes certain governmental funds to the state of Texas. The Service Organization supports care to the Medicaid and non-Medicaid indigent in the region and surrounding communities. These services were valued at approximately \$587,000 and \$1,482,000 for the years ended September 30, 2021 and 2020, respectively. As part of the affiliation agreement, the District provided approximately \$0 and \$509,000, respectively, in funding to the program for the years ended September 30, 2021 and 2020. The affiliation benefit ended in 2020.

Note 3: Deposits

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, 2021 and 2020, \$0 and \$1,359,049, respectively, of the District's deposits were uninsured and were not collateralized by collateral held by the pledging financial institution's agent in the District's name.

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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:

	2021	2020
Medicare	\$ 341,111	\$ 584,733
Medicaid	131,548	114,151
Other third-party payers	1,616,771	1,153,855
Patients	5,156,023	4,612,591
	7,245,453	6,465,330
Less allowance for uncollectible accounts	(5,572,000)	(4,835,000)
	\$ 1,673,453	\$ 1,630,330

Note 5: Capital Assets

Capital assets activity for the years ended September 30 was:

	2021				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 126,500	\$ -	\$ -	\$ -	\$ 126,500
Land improvements	147,412	132,175	-	-	279,587
Buildings and improvements	18,940,032	8,232	-	-	18,948,264
Equipment	20,203,129	358,458	-	-	20,561,587
Leased assets	551,716	-	-	-	551,716
Construction in progress	-	199,474	-	-	199,474
	39,968,789	698,339	-	-	40,667,128
Less accumulated depreciation	31,492,491	980,217	-	-	32,472,708
Capital assets, net	\$ 8,476,298	\$ (281,878)	\$ -	\$ -	\$ 8,194,420

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	2020				Ending Balance
	Beginning Balance	Additions	Disposals	Transfers	
Land	\$ 126,500	\$ -	\$ -	\$ -	\$ 126,500
Land improvements	147,412	-	-	-	147,412
Buildings and improvements	18,869,307	70,725	-	-	18,940,032
Equipment	19,124,662	1,078,467	-	-	20,203,129
Leased assets	551,716	-	-	-	551,716
	38,819,597	1,149,192	-	-	39,968,789
Less accumulated depreciation	30,589,325	903,166	-	-	31,492,491
Capital assets, net	\$ 8,230,272	\$ 246,026	\$ -	\$ -	\$ 8,476,298

Note 6: Medical Malpractice Claims

The District is a unit of government covered by the Texas Tort Claims Act, which, by statute, limits its liability to \$100,000 per person/\$300,000 per occurrence. The District is self-insured for amounts not covered by the Act. Losses from asserted and unasserted claims identified under the District's incident reporting system are accrued based on estimates that incorporate the District's past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. Based upon claims experience, the District has accrued approximately \$296,000 for malpractice claims in both 2021 and 2020 that is included in self-funded malpractice on the balance sheets. The District made no payments on malpractice claims in 2021 or 2020. It is reasonably possible that this estimate could change materially in the near term.

Note 7: Line of Credit

The following is a summary of lines of credit transactions for the District for the years ended September 30:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
2021	\$ 591,666	\$ -	\$ (591,666)	\$ -	\$ -
2020	\$ 2,900,000	\$ -	\$ (2,308,334)	\$ 591,666	\$ 591,666

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The District obtained a \$2,900,000 non-revolving line of credit, dated on September 9, 2019 with Ciera Bank, with an expiration date of December 9, 2020 and an interest rate of 4.00%. At September 30, 2020, there was \$591,666 borrowed against the line of credit. The line of credit was paid off in December 2020 and was not renewed.

Note 8: Long-Term Debt

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

	2021				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Paycheck protection program loan	\$ 1,732,538	\$ -	\$ (1,732,538)	\$ -	\$ -
Notes payable	1,383,165	-	(248,160)	1,135,005	240,937
Capital lease obligations	148,271	-	(104,004)	44,267	44,155
Total long-term debt	<u>\$ 3,263,974</u>	<u>\$ -</u>	<u>\$ (2,084,702)</u>	<u>\$ 1,179,272</u>	<u>\$ 285,092</u>

	2020				
	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt					
Paycheck protection program loan	\$ -	\$ 1,732,538	\$ -	\$ 1,732,538	\$ 1,052,294
Notes payable	1,618,986	-	(235,821)	1,383,165	248,161
Capital lease obligations	261,290	-	(113,019)	148,271	104,003
Total long-term debt	<u>\$ 1,880,276</u>	<u>\$ 1,732,538</u>	<u>\$ (348,840)</u>	<u>\$ 3,263,974</u>	<u>\$ 1,404,458</u>

Notes Payable

During 2018, the District obtained a promissory note for equipment for \$1,485,102. The promissory note is due February 1, 2028, with principal payable monthly and interest at 4.875% payable monthly. The note is collateralized by income and receivables of the District operations.

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During 2019, the District obtained a promissory note for equipment for \$340,308. The promissory note is due July 15, 2022, with principal payable monthly and interest at 5.500% payable monthly. The note is secured by certain capital assets.

The debt service requirements as of September 30, 2021, are as follows:

Year Ending September 30,	Total to be Paid	Principal	Interest
2022	\$ 290,626	\$ 240,937	\$ 49,689
2023	188,523	148,407	40,116
2024	188,523	155,806	32,717
2025	188,524	163,574	24,950
2026	188,523	171,728	16,795
2027-2028	<u>263,589</u>	<u>254,553</u>	<u>9,036</u>
	<u>\$ 1,308,308</u>	<u>\$ 1,135,005</u>	<u>\$ 173,303</u>

Capital Lease Obligations

The District is obligated under leases for equipment that is accounted for as capital leases. Assets under capital lease at September 30, 2021, totaled approximately \$196,000, net of accumulated depreciation of approximately \$356,000. The following is a schedule by year of future minimum lease payments under the capital lease including interest at 2.77% to 4.00% together with the present value of the future minimum lease payments as of September 30, 2021:

Year Ending September 30,	Total be Paid
2022	\$ 44,855
Total minimum lease payments	44,855
Less amount representing interest	<u>700</u>
Present value of future minimum lease payments	<u>\$ 44,155</u>

Paycheck Protection Program Loan

During May 2020, the District obtained a loan under the paycheck protection program (PPP). The PPP loan was originally due May 1, 2022, with monthly interest payments at 1.00%. The District obtained legal notice of forgiveness of the PPP loan during fiscal year 2021 and recognized the forgiveness as a special item in the statement of revenues, expenses, and changes in net position for the year ended September 30, 2021.

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Note 9: Charity Care

Charges excluded from revenue under the District's charity care policy were \$4,247,918 and \$2,018,018 for 2021 and 2020, respectively. The costs of charity care provided under the District's charity care policy were \$1,455,757 and \$726,672 for 2021 and 2020, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 10: Defined Contribution Pension Plan

Plan Description

In January 2021, the District began a defined contribution pension plan covering substantially all employees classified by the employer as full-time employees. This plan is sponsored by the Texas Hospital Association (THA). It is funded in monthly contributions with the District's contribution to the plan being discretionary. District contributions to the plan in future periods will be determined by Board resolution. Employee contributions to the plan for the years ended September 30, 2021 and 2020, were \$58,030 and \$0, respectively. The District made no contributions to the plan for the years ended September 30, 2021 and 2020.

Note 11: Defined Benefit Pension Plan

Plan Description

The District contributes to the Texas County and District Retirement System (TCDRS), an agent multiple-employer defined benefit pension plan covering substantially 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-

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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 5 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 the December 31, 2020 and 2019, measurement dates, are:

	2020	2019
Inactive employees or beneficiaries currently receiving benefits	11	7
Inactive employees entitled to but not yet receiving benefits	197	187
Active employees	137	142
	345	336

Actuarial Assumptions

The total pension liability in the December 31, 2020 and 2019 actuarial valuations was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.50% in 2020 and 2.75% in 2019
Salary increases	Varies by age, 4.9% average over career, including inflation
Ad hoc cost of living adjustments	Not included
Investment rate of return	7.60% in 2020 and 8.10% in 2019, net of administrative and investment expense, including inflation

The actuarial valuation assumed life expectations were 130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Health Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

The actuarial assumptions used in the December 31, 2020 and 2019 valuations were based on the results of an actuarial experience study for the period January 1, 2013 through December 30, 2016.

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Long-term Expected Rate of Return

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 are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Equities		
U.S. Equities	11.5%	5.2%
International Equities — Developed	5.0%	5.2%
International Equities — Emerging	6.0%	5.7%
Global Equities	2.5%	5.5%
Hedge Funds	6.0%	2.3%
High-Yield Investments		
Strategic Credit	9.0%	3.1%
Distressed Debt	4.0%	6.9%
Direct Lending	16.0%	7.2%
Private Equity	25.0%	8.2%
Real Assets		
REITs	2.0%	4.5%
Private Real Estate Partnerships	6.0%	5.5%
Master Limited Partnerships	2.0%	8.4%
Cash Equivalents	2.0%	
Investment-Grade Bonds	3.0%	-0.2%
	<hr/>	
Total	<u>100.0%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 7.60% and 8.10%, respectively, at December 31, 2020 and 2019. 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 District 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.

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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 4% 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 plan years ended December 31, 2020 and 2019, employees contributed \$325,419 and \$288,763, or 4.0% and 4.0% of annual pay, respectively, and the District contributed \$151,926 and \$145,468, or 1.9% and 2.0% of annual pay, respectively, to the Plan.

Net Pension Asset

The District's net pension asset as of September 30, 2021 and 2020 was measured as of December 31, 2020 and 2019, respectively, and the total pension liability used to calculate the net pension asset was determined by actuarial valuations as of those dates.

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Changes in the total pension liability, plan fiduciary net position and the net pension liability (asset) for the years ended September 30, 2021 and 2020 are:

	2021		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at September 30, 2020	\$ 3,700,003	\$ 4,623,175	\$ (923,172)
Changes for the year:			
Service cost	483,097	-	483,097
Interest on total pension liability	335,809	-	335,809
Effect of economic/demographic gains or losses	34,944	-	34,944
Effect of assumptions changes or inputs	329,197	-	329,197
Refund of contributions	(47,121)	(47,121)	-
Benefit payments	(28,981)	(28,981)	-
Administrative expenses	-	(4,025)	4,025
Member contributions	-	310,065	(310,065)
Net investment income	-	478,404	(478,404)
Employer contributions	-	157,195	(157,195)
Other changes	-	12,033	(12,033)
Net changes	1,106,945	877,570	229,375
Balances at September 30, 2021	<u>\$ 4,806,948</u>	<u>\$ 5,500,745</u>	<u>\$ (693,797)</u>

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	2020		
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at September 30, 2019	\$ 3,072,786	\$ 3,651,510	\$ (578,724)
Changes for the year:			
Service cost	490,920	-	490,920
Interest on total pension liability	285,825	-	285,825
Effect of economic/demographic gains or losses	(78,136)	-	(78,136)
Refund of contributions	(58,141)	(58,141)	-
Benefit payments	(13,251)	(13,251)	-
Administrative expenses	-	(3,523)	3,523
Member contributions	-	288,763	(288,763)
Net investment income	-	599,282	(599,282)
Employer contributions	-	145,468	(145,468)
Other changes	-	13,067	(13,067)
Net changes	<u>627,217</u>	<u>971,665</u>	<u>(344,448)</u>
Balances at September 30, 2020	<u>\$ 3,700,003</u>	<u>\$ 4,623,175</u>	<u>\$ (923,172)</u>

The net pension liability (asset) of the District has been calculated using a discount rate of . The following presents the net pension liability (asset) using a discount rate 1% higher and 1% lower than the current rate.

	1% Decrease (6.60%)	Current Discount Rate (7.60%)	1% Increase (8.60%)
District's net pension liability (asset)	<u>\$ 84,552</u>	<u>\$ (693,797)</u>	<u>\$ (1,323,512)</u>

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

For the years ended September 30, 2021 and 2020, respectively, the District recognized pension expense of \$(4,170) and \$1,843. At September 30, 2021 and 2020, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2021	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 27,168	\$ 67,460
Changes of assumptions	247,009	-
Net difference between projected and actual earnings on pension plan investments	-	133,386
Contributions subsequent to the measurement date	107,401	-
	\$ 381,578	\$ 200,846

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 27,168	\$ 251,631
Changes of assumptions	113,623	-
Net difference between projected and actual earnings on pension plan investments	-	72,272
Contributions subsequent to the measurement date	107,401	-
	\$ 248,192	\$ 323,903

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At September 30, 2021, the District reported 2021 as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date that will be recognized as a reduction of the net pension liability at September 30, 2022. Other amounts reported as deferred outflows of resources and deferred inflows of resources at September 30, 2021, related to pensions will be recognized in pension expense as follows:

Year ending September 30,				
	2020	\$	18,002	
	2021		57,270	
	2022		15,678	
	2023		(17,619)	
			73,331	
		\$	73,331	

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 year ended December 31, 2020.

Note 12: Contingencies

Litigation

In the normal course of business, 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 the District’s self-insurance program (discussed elsewhere in these notes), the Texas Tort Claims Act or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. 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, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 13: Related Party Transactions

The District from time to time conducts business transactions with individuals or companies that that members of the Board have a direct or indirect relationship. Specifically, a physician performing medical services for the District also served on the District Board during 2021 and 2020.

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Note 14: 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.

Beginning in mid-March 2020, the District deferred all nonessential medical procedures and suspended elective procedures, which resumed at different rates during the final quarter of 2020.

The District received approximately \$4,000,000 in general and targeted Provider Relief Fund distributions and approximately \$2,600,000 in accelerated Medicare payments, both as provided for under the *Coronavirus Aid, Relief, and Economic Security (CARES) Act*, as discussed below.

Provider Relief Fund

During the year ended September 30, 2021 and 2020, the District received \$0 and \$3,990,886, respectively, 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, 2021, the District recognized approximately \$3,300,000 and \$0 related to the Provider Relief Funds in 2021 and 2020, respectively, and these payments are recorded in noncapital grants and gifts on the statements of revenues, expenses and changes in net position. At September 30, 2021 and 2020, the unrecognized amount of Provider Relief Fund distributions are recorded as Provider Relief Funds received in advance in the accompanying balance sheets.

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.

Graham Hospital District
d/b/a Graham Regional Medical Center
Notes to Financial Statements
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Medicare Accelerated and 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-month at a rate of 4 percent.

During the year ended September 30, 2020, the District received approximately \$2,600,000 from these accelerated Medicare payment requests. During the year ended September 30, 2021, approximately \$149,000 was recouped from Medicare. The unapplied amount of accelerated Medicare payment requests at September 30, 2021 and 2020, of approximately \$2,500,000 and \$2,600,000, respectively, are recorded in estimated amounts due to third-party payers in the balance sheets.

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 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 \$1,732,538 in May 2020. The loan had an interest rate of 1 percent, with monthly payments of \$97,502 due monthly starting six months after the receipt of the loan.

The District has accounted for the PPP loan in accordance with GASB Statement 62 and GASB Technical Bulletin No. 2020-1. During the year ended September 30, 2021, the District was legally released from the loan and the forgiveness of the debt was recognized as a special item on the statements of revenues, expenses, and changes in net position as of September 30, 2021. See *Note 8* for additional information.