

Board of Directors, Audit Committee, and Management
Midland County Hospital District
Midland, Texas

As part of our audit of the financial statements of Midland County Hospital District (the District) as of and for the year ended September 30, 2021, we wish to communicate the following to you.

AUDIT SCOPE AND RESULTS

Auditor's Responsibility Under Auditing Standards Generally Accepted in the United States of America and the Standards Applicable to Financial Audits Contained in *Government Auditing Standards* Issued by the Comptroller General of the United States

An audit performed in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States is designed to obtain reasonable, rather than absolute, assurance about the financial statements. In performing auditing procedures, we establish scopes of audit tests in relation to the financial statements taken as a whole. Our engagement does not include a detailed audit of every transaction. Our contract more specifically describes our responsibilities.

These standards require communication of significant matters related to the financial statement audit that are relevant to the responsibilities of those charged with governance in overseeing the financial reporting process. Such matters are communicated in the remainder of this letter or have previously been communicated during other phases of the audit. The standards do not require the auditor to design procedures for the purpose of identifying other matters to be communicated with those charged with governance.

An audit of the financial statements does not relieve management or those charged with governance of their responsibilities. Our contract more specifically describes your responsibilities.

Qualitative Aspects of Significant Accounting Policies and Practices

Significant Accounting Policies

The District's significant accounting policies are described in *Note 1* of the audited financial statements.

Alternative Accounting Treatments

No matters reportable.

Management Judgments and Accounting Estimates

Accounting estimates are an integral part of financial statement preparation by management, based on its judgments. The following areas involve significant estimates for which we are prepared to discuss management's estimation process and our procedures for testing the reasonableness of those estimates:

- Patient accounts receivable valuation
- Estimated amounts due to and from third party payers, including amounts related to the Medicaid supplemental funding programs
- Reserves for self-insured risks
- Net pension liability
- Provider Relief Fund revenue recognition

Financial Statement Disclosures

The following areas involve particularly sensitive financial statement disclosures for which we are prepared to discuss the issues involved and related judgments made in formulating those disclosures:

- Net patient services revenue
- Supplemental Medicaid funding programs
- Defined benefit pension plan
- COVID-19 and CARES Act Funding
- Energy Asset Concession Arrangement

Audit Adjustments

During the course of any audit, an auditor may propose adjustments to financial statement amounts. Management evaluates our proposals and records those adjustments which, in its judgment, are required to prevent the financial statements from being materially misstated. A misstatement is a difference between the amount, classification, presentation, or disclosure of a reported financial statement item and that which is required for the item to be presented fairly in accordance with the applicable financial reporting framework. Some adjustments proposed were not recorded because their aggregate effect is not currently material; however, they involve areas in which adjustments in the future could be material, individually or in the aggregate.

Areas in which adjustments were proposed include:

Proposed Audit Adjustments Recorded

- Balance sheet and statements of revenues, expenses and changes in net assets reclassifications

Proposed Audit Adjustments Not Recorded

- Attached is a summary of uncorrected misstatements we aggregated during the current engagement and pertaining to the latest period presented that were determined by management to be immaterial, both individually and in the aggregate, but more than trivial to the financial statements as a whole.
- We would like to call your attention to the fact that although these uncorrected misstatements, individually and in the aggregate, were deemed to be immaterial to the current year financial statements, it is possible that the impact these uncorrected misstatements, or matters underlying these uncorrected misstatements, could potentially cause future-period financial statements to be materially misstated.

Auditor's Judgments About the Quality of the District's Accounting Principles

During the course of the audit, we made the following observations regarding the District's application of accounting principles:

GASB 84, *Fiduciary Activities*

Effective October 1, 2020, the District adopted GASB 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. The adoption resulted in the Midland Memorial Hospital Defined Benefit Retirement Savings Plan being reported as a fiduciary fund in the financial statements.

Significant Issues Discussed with Management

During the audit process, the following issues were discussed or were the subject of correspondence with management:

- COVID-19 and CARES Act funding
- Issuance of bonds
- Pension plan funding
- Sales tax
- Grant from Midland County

Other Material Communications

Listed below are other material communications between management and us related to the audit:

- Management representation letter (*attached*)
- We orally communicated to management other deficiencies in internal control identified during our audit that are not considered material weaknesses or significant deficiencies.

INTERNAL CONTROL OVER FINANCIAL REPORTING

In planning and performing our audit of the financial statements of the District as of and for the year ended September 30, 2021, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, we considered the District's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis.

A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

We observed the following matters that we consider to be deficiencies.

Deficiencies

We observed matters that we consider to be deficiencies that we communicated to management orally.

OTHER MATTERS

We offer these comments and suggestions as constructive suggestions for the consideration of management as part of the ongoing process of modifying and improving financial and administrative practices and procedures. We can discuss these matters further at your convenience and may provide implementation assistance for changes or improvements.

Future Change in Accounting Standard – GASB 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*

This Statement removes the concept of capitalized interest from all types of governmental entities. GASB 89 is effective for the District's fiscal year ending September 30, 2022 and will be adopted prospectively.

Future Change in Accounting Standard – GASB 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. 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. 96, Subscription-Based Information Technology Arrangements

This Statement addresses the accounting for the costs related to cloud computing agreements. The standard defines a subscription-based information technology arrangement (SBITA), establishes that a SBITA would result in a right-to-use (RTU) asset and a corresponding liability, provides capitalization criteria, and requires new note disclosures. The Statement's language and concepts closely mirror the lease guidance provided in Statement 87, *Leases*. This statement requires governments report a subscription asset and subscription liability for a SBITA and to disclose essential information about the arrangement. The disclosures will allow users to understand the scale and important aspects of a government's SBITA activities and evaluate a government's obligations and assets resulting from SBITAs.

The requirements of this Statement are effective for fiscal years beginning after June 15, 2022, and all reporting periods thereafter. Earlier application is encouraged. The changes should be applied retroactively by restating financial statements, if practicable, for all prior fiscal years presented. If restatement is not practicable, the cumulative effect, if any, should be reported as a restatement of beginning net position for the earliest fiscal year restated. In the first fiscal year the amendments are applied, note disclosure is required for the nature of the restatement and its effect, as well as the reason for not restating prior fiscal years presented, if applicable. SBITA assets and liabilities should be recognized and measured using the facts and circumstances at the beginning of the fiscal year of implementation. If applied to earlier fiscal years, those assets and liabilities should be recognized and measured using the facts and circumstances at the beginning of the earliest fiscal year restated. Governments are permitted—but not required—to include in the measurement of the subscription asset capitalizable outlays associated with the initial implementation stage and the operation and additional implementation stage incurred prior to the implementation.

Price Transparency

Effective January 1, 2021, hospitals operating in the U.S. are required to make their standard charges for all items and services provided by the hospital publicly available in a comprehensive, machine-readable file. In addition, hospitals must make public, in a consumer-friendly format, standard charge information for 300 shoppable services.

In the calendar-year 2022 Outpatient Prospective Payment System proposed rule, CMS shows no sign of backing off on the current requirements, but instead proposes to amend several hospital price transparency policies to further encourage compliance.

The most notable change to the price transparency requirement is a proposed increase to the amount of the monetary penalty for noncompliance through the use of a proposed scaling factor based on hospital bed count. While the current civil monetary penalty for noncompliance would not exceed \$300 per day for any hospital, the proposed penalty of \$10 per day per hospital bed for hospitals with more than 30 beds could increase penalties up to \$5,500 per day for a hospital with more than 550 beds as summarized by CMS in the following table.

Number of Beds	Penalty Applied per Day	Total Full-Year Penalty
30 or fewer	\$300 per hospital	\$109,500 per hospital
31 up to 550	\$310–\$5,500 per hospital (number of beds * \$10)	\$113,150–\$2,007,500 per hospital
More than 550	\$5,500 per hospital	\$2,007,500 per hospital

Source: CMS CY 2022 OPSS Proposed Rule, Table 63

Additional proposed amendments to the price transparency policies include deeming state forensic hospitals that meet certain requirements to be in compliance with the requirements of 45 Code of Federal Regulations Part 180, and prohibiting certain conduct that CMS has concluded to be barriers to accessing the standard charge information. CMS also clarifies the expected output of hospital online price estimator tools when hospitals choose to use them to provide price estimates for shoppable services in a consumer-friendly format.

CMS has prepared Hospital Price Transparency Requirements Quick Reference Checklists to assist hospitals with determining whether the hospital is meeting current price transparency requirements. The checklists can be found on CMS' website at the following location.

<https://www.cms.gov/files/document/hospital-price-transparency-final-rule-quick-reference-checklists.pdf>

BKD's Health Care Performance Advisory Services (HCPAS) professionals can help hospitals navigate the price transparency requirements and develop a plan for incorporating these requirements into the hospital's overall pricing strategy. For more information, reach out to your BKD HCPAS trusted advisor.

Proposed Hospital Cost Report Changes (Transmittal 17)

On November 10, 2020, the Centers for Medicare and Medicaid Services (CMS) published a notice in the Federal Register regarding a proposed revision to the Hospital and Health Care Complex Cost Report. In this proposal, CMS addresses several items including:

- Creation of Worksheet 2A – Several new fields were added to the reporting requirements for Medicare bad debts.
- Creation of Worksheet 3B – Provides a standard format for the information required to support the charity care amounts claimed on Worksheet S-10.

CMS has proposed these changes to be effective for cost report periods beginning on or after October 1, 2020. CMS has not finalized Transmittal 17 therefore the effective date is not binding at this point. BKD expects these changes to significantly impact hospital reimbursement, specifically the changes relating to the reporting requirements for Medicare bad debts and Worksheet S-10. The expanded data requirements will create additional work for providers and open the listings up to additional audit scrutiny. We recommend working with your IT group to develop a plan on how to capture these new data elements. BKD has been preparing for these changes over the last year and is available to support you through these substantial changes.

This communication is intended solely for the information and use of management the Audit Committee and the Board of Directors, others within the District, and is not intended to be and should not be used by anyone other than these specified parties.

BKD, LLP

May 2, 2022

Representation of:

Midland County Hospital District
400 Rosalind Redfern Grover Parkway
Midland, Texas 79701

Provided to:

BKD, LLP
Certified Public Accountants
14241 Dallas Parkway, Suite 1100
Dallas, TX 75254

The undersigned (“We”) are providing this letter in connection with BKD’s audits of our financial statements as of and for the years ended September 30, 2021 and 2020.

Our representations are current and effective as of the date of BKD’s report: May 2, 2022.

Our engagement with BKD is based on our contract for services dated: May 26, 2021.

Our Responsibility and Consideration of Material Matters

We confirm that we are responsible for the fair presentation of the financial statements subject to BKD’s report in conformity with accounting principles generally accepted in the United States of America.

We are also responsible for adopting sound accounting policies; establishing and maintaining effective internal control over financial reporting, operations, and compliance; and preventing and detecting fraud.

Certain representations in this letter are described as being limited to matters that are material. Items are considered material, regardless of size, if they involve an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would be changed or influenced by the omission or misstatement.

Confirmation of Matters Specific to the Subject Matter of BKD’s Report

We confirm, to the best of our knowledge and belief, the following:

1. We have fulfilled our responsibilities, as set out in the terms of our contract, for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America.
2. We acknowledge our responsibility for the design, implementation, and maintenance of:
 - a. Internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.
 - b. Internal control to prevent and detect fraud.
3. We have reviewed and approved a draft of the financial statements and related notes referred to above, which you prepared in connection with your audit of our financial statements. We

acknowledge that we are responsible for the fair presentation of the financial statements and related notes.

4. We have provided you with:
 - a. Access to all information of which we are aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters.
 - b. Additional information that you have requested from us for the purpose of the audit.
 - c. Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
 - d. All minutes of directors' meetings held through the date of this letter or summaries of actions of recent meetings for which minutes have not yet been prepared. All unsigned copies of minutes provided to you are copies of our original minutes approved by the board, if applicable, and maintained as part of our records.
 - e. All significant contracts and grants.
 - f. All peer review organizations, administrative contractor, and third-party payer reports and information.
5. All transactions have been recorded in the accounting records and are reflected in the financial statements.
6. We have informed you of all current risks of a material amount that are not adequately prevented or detected by our procedures with respect to:
 - a. Misappropriation of assets.
 - b. Misrepresented or misstated assets, liabilities, or net position.
7. We believe the effects of the uncorrected financial statement misstatements summarized in the attached schedule are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
8. We have no knowledge of any known or suspected fraudulent financial reporting or misappropriation of assets involving:
 - a. Management or employees who have significant roles in internal control, or
 - b. Others, where activities of others could have a material effect on the financial statements.
9. We have no knowledge of any communications from regulatory agencies, governmental representatives, employees, or others concerning investigations or allegations of noncompliance with laws and regulations, deficiencies in financial reporting practices, or other matters that could have a material adverse effect on the financial statements.
10. We have no knowledge of any allegations of fraud or suspected fraud affecting the entity received in communications from employees, customers, regulators, suppliers, or others.

11. We have assessed the risk that the financial statements may be materially misstated as a result of fraud and disclosed to you any such risk identified.
12. We have disclosed to you the identity of all of the entity's related parties and all the related party relationships and transactions of which we are aware. Related party relationships and transactions have been appropriately accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.

We understand that the term related party refers to an affiliate, principal owners, management and members of their immediate families, component units/subsidiaries accounted for by the equity method; and any other party with which the entity may deal if the entity can significantly influence, or be influenced by, the management or operating policies of the other. The term affiliate refers to a party that directly or indirectly controls, or is controlled by, or is under common control with, the entity.

13. All transactions entered into by the entity with entities that are related parties were conducted on terms equivalent to those prevailing in an arm's-length transaction.
14. We are not aware of any side agreements or other arrangements (either written or oral) that are in place.
15. Except as reflected in the financial statements, there are no:
 - a. Plans or intentions that may materially affect carrying values or classifications of assets and liabilities.
 - b. Material transactions omitted or improperly recorded in the financial records.
 - c. Material gain/loss contingencies requiring accrual or disclosure, including those arising from environmental remediation obligations.
 - d. Events occurring subsequent to the balance sheet date through the date of this letter requiring adjustment or disclosure in the financial statements.
 - e. Agreements to purchase assets previously sold.
 - f. Equity repurchase options or agreements, or equity reserved for options, warrants, conversions, or other requirements.
 - g. Restrictions on cash balances or compensating balance agreements.
 - h. Guarantees, whether written or oral, under which the entity is contingently liable.
16. We have disclosed to you all known instances of noncompliance or suspected noncompliance with laws and regulations whose effects should be considered when preparing financial statements.
17. We have no reason to believe the entity owes any penalties or payments under the Employer Shared Responsibility Provisions of the *Patient Protection and Affordable Care Act* nor have we received any correspondence from the IRS or other agencies indicating such payments may be due.

18. We have disclosed to you all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements. The effects of all known actual or possible litigation and claims have been accounted for and disclosed in accordance with accounting principles generally accepted in the United States of America.
19. We have informed you of all pending or completed investigations by regulatory authorities of which we are aware. There are no known circumstances that could jeopardize the entity's participation in the Medicare or other governmental health care programs.
20. Adequate provisions and allowances have been accrued for any material losses from:
 - a. Uncollectible receivables.
 - b. Medicare/Medicaid and other third-party payer contractual, audit, or other adjustments.
 - c. Reducing obsolete or excess inventories to estimated net realizable value.
 - d. Purchase commitments in excess of normal requirements or above prevailing market prices.
21. Except as disclosed in the financial statements, the entity has:
 - a. Satisfactory title to all recorded assets, and they are not subject to any liens, pledges, or other encumbrances.
 - b. Complied with all aspects of contractual and grant agreements, for which noncompliance would materially affect the financial statements.
22. The financial statements disclose all significant estimates and material concentrations known to us. Significant estimates are estimates at the balance sheet date that could change materially within the next year. Concentrations refer to volumes of business, revenues, available sources of supply, or markets for which events could occur that would significantly disrupt normal finances within the next year. Significant assumptions used by us in making accounting estimates, including those measured at fair value, are reasonable.
23. The fair values of financial and nonfinancial assets and liabilities, if any, recognized in the financial statements or disclosed in the notes thereto are reasonable estimates based on the methods and assumptions used. The methods and significant assumptions used result in measurements of fair value appropriate for financial statement recognition and disclosure purposes and have been applied consistently from period to period, taking into account any changes in circumstances. The significant assumptions appropriately reflect market participant assumptions.
24. We have not been designated as a potentially responsible party (PRP or equivalent status) by the Environmental Protection Agency (EPA) or other cognizant regulatory agency with authority to enforce environmental laws and regulations.
25. With respect to any nonattest services you have provided us during the year, including preparation of the Medicare/Medicaid cost report and drafting of the financial statements and related notes:
 - a. We have designated a qualified management-level individual to be responsible and accountable for overseeing the nonattest services.

- b. We have established and monitored the performance of the nonattest services to ensure they meet our objectives.
 - c. We have made any and all decisions involving management functions with respect to the nonattest services and accept full responsibility for such decisions.
 - d. We have evaluated the adequacy of the services performed and any findings that resulted.
26. We have notified you of any instances of noncompliance with applicable disclosure requirements of the SEC Rule 15c2-12 and applicable state laws.
27. With respect to the entity's possible exposure to past or future medical malpractice assertions:
- a. We have disclosed to you all incidents known to us that could possibly give rise to an assertion of malpractice.
 - b. All known incidents have been reported to our actuarial consultants and are appropriately considered in our malpractice liability accrual. Any claims that should be reported to our excess liability carrier have been reported.
 - c. There is no known lapse in coverage, including any lapse subsequent to the fiscal year-end, that would result in any known incidents being uninsured above our customary self-insured retention amounts.
 - d. Management does not expect any claims to exceed any applicable excess policy malpractice insurance limits.
 - e. We believe our accruals for uninsured malpractice claims are sufficient for all known and any probable potential claims.
 - f. We have reviewed the assumptions used by our actuarial consultant to estimate our self-insured accrual and believe those assumptions are appropriate.
28. With regard to deposit and investment activities:
- a. All deposit, repurchase and reverse repurchase agreements, and investment transactions have been made in accordance with legal and contractual requirements.
 - b. Disclosures of deposit and investment balances and risks in the financial statements are consistent with our understanding of the applicable laws regarding enforceability of any pledges of collateral.
 - c. We understand that your audit does not represent an opinion regarding the enforceability of any collateral pledges.
29. We are an entity exempt from income tax under Section 501(c) of the Internal Revenue Code and a similar provision of state law and, except as disclosed in the financial statements, there are no activities that would jeopardize our tax-exempt status or subject us to income tax on unrelated business income or excise tax on prohibited transactions and events.

30. We further acknowledge the entity's exemption under Section 501(c) is subject to additional operating requirements under Section 501(r). As such, we made publicly available a community health needs assessment performed in accordance with IRS requirements, and the entity's Board of Trustees subsequently approved an implementation strategy to address needs identified in the assessment. The entity is also in compliance with certain requirements dealing with financial assistance, billing and collection practices, and limitations on charges for uninsured patients that meet our financial assistance requirements.
31. As an entity subject to *Government Auditing Standards*:
- a. We acknowledge that we are responsible for compliance with applicable laws, regulations, and provisions of contracts and grant agreements.
 - b. We have identified and disclosed to you all laws, regulations, and provisions of contracts and grant agreements that have a direct and material effect on the determination of amounts in our financial statements or other financial data significant to the audit objectives.
 - c. We have identified and disclosed to you any violations or possible violations of laws, regulations, and provisions of contracts and grant agreements whose effects should be considered for recognition and/or disclosure in the financial statements or for your reporting on noncompliance.
 - d. We have taken or will take timely and appropriate steps to remedy any fraud, abuse, illegal acts, or violations of provisions of contracts or grant agreements that you or other auditors report.
 - e. We have a process to track the status of audit findings and recommendations.
 - f. We have identified to you any previous financial audits, attestation engagements, performance audits, or other studies related to the objectives of your audit and the corrective actions taken to address any significant findings and recommendations made in such audits, attestation engagements, or other studies.
32. The supplementary information required by the Governmental Accounting Standards Board, consisting of management's discussion and analysis and pension information has been prepared and is measured and presented in conformity with the applicable GASB pronouncements, and we acknowledge our responsibility for the information. The information contained therein is based on all facts, decisions, and conditions currently known to us and is measured using the same methods and assumptions as were used in the preparation of the financial statements. We believe the significant assumptions underlying the measurement and/or presentation of the information are reasonable and appropriate. There has been no change from the preceding period in the methods of measurement and presentation.
33. With regard to supplementary information:
- a. We acknowledge our responsibility for the presentation of the supplementary information in accordance with the applicable criteria.
 - b. We believe the supplementary information is fairly presented, both in form and content, in accordance with the applicable criteria.

- c. The methods of measurement and presentation of the supplementary information are unchanged from those used in the prior period.
 - d. We believe the significant assumptions or interpretations underlying the measurement and/or presentation of the supplementary information are reasonable and appropriate.
 - e. If the supplementary information is not presented with the audited financial statements, we acknowledge we will make the audited financial statements readily available to intended users of the supplementary information no later than the date such information and the related auditor's report are issued.
34. Billings to third-party payers comply in all material respects with applicable coding guidelines, laws, and regulations. Billings reflect only charges for goods and services that were medically necessary; properly approved by regulatory bodies, if required; and properly rendered.
35. With regard to cost reports filed with Medicare, Medicaid, or other third parties:
 - a. All required reports have been properly filed.
 - b. Management is responsible for the accuracy and propriety of those reports.
 - c. All costs reflected on such reports are appropriate and allowable under applicable reimbursement rules and regulations and are patient-related and properly allocated to applicable payers.
 - d. The reimbursement methodologies and principles employed are in accordance with applicable rules and regulations.
 - e. All items required to be disclosed, including disputed costs that are being claimed to establish a basis for a subsequent appeal, have been fully disclosed in the cost report.
 - f. Recorded third-party settlements include differences between filed (and to be filed) cost reports and calculated settlements, which are necessary based upon historical experience or new or ambiguous regulations that may be subject to differing interpretations. While management believes the entity is entitled to all the amounts claimed on the cost reports, management also believes the amounts of these differences are appropriate.
36. With regard to the District's participation in the Nursing Facility Quality Incentive Payment Program, it is the intention of the District and management companies that losses from operation of the nursing homes, if any, will be limited to no more than 40 to 50 percent of the net program revenue received by the District, in accordance with each individual nursing facility management agreement.
37. To the best of our knowledge, the amounts recorded as receivables under the Section 1115(a) waiver program (Uncompensated Care and Delivery System Reform Incentive Payment Program), are reasonable estimates of the amounts we will ultimately receive for these programs. We have made appropriate allowances for any amounts subject to retrospective audit and adjustment by the state of Texas or the Center for Medicare and Medicaid Services.

38. We have implemented GASB Statement No. 84, *Fiduciary Activities*, and No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans*, an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32 in the current year. Management has provided you with all relevant information regarding the implementation. We have identified and evaluated all potential fiduciary activities and we believe there are no fiduciary activities.
39. With regards to the payments received from the Provider Relief Fund established by the CARES Act, we represent the following:
- To the extent revenue has been recognized, we believe we have met the eligibility requirements as outlined in the U.S. Department of Health and Human Services' (HHS) terms and conditions for the Provider Relief Fund.
 - We believe the method we have utilized to recognize revenue associated with the Provider Relief Fund is consistent with acceptable methods outlined in HHS' terms and conditions and other guidance available as of September 30, 2021.
 - Consistent with the terms and conditions established by HHS and other guidance available as of September 30, 2021, Provider Relief Fund payments were not used to reimburse expenses or losses that have been reimbursed or are obligated to be reimbursed by other sources, including payments from insurance and/or patients and amounts received from federal, state, or local governments.
 - We acknowledge that HHS may issue new guidance that could have a material impact on the amount of revenue recognized from the Provider Relief Fund as of September 30, 2021.
 - We understand that amounts recognized on the Schedule of Expenditures of Federal Awards may differ from amounts recognized on the financial statements.

MIDLAND COUNTY HOSPITAL DISTRICT

DocuSigned by:

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Russell Meyers, Chief Executive Officer

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Samuel Moore, Chief Financial Officer

Midland County Hospital District

ATTACHMENT

This analysis and the attached "Schedule of Uncorrected Misstatements (Adjustments Passed)" reflect the effects on the financial statements if the uncorrected misstatements identified were corrected.

QUANTITATIVE ANALYSIS

	Before Misstatements	Misstatements	Subsequent to Misstatements	% Change
Current Assets	159,427,217	4,226,803	163,654,020	2.65%
Non-Current Assets & Deferred Outflows	276,161,544	405,811	276,567,355	0.15%
Current Liabilities	(73,766,983)	(1,845,031)	(75,612,014)	2.50%
Non-Current Liabilities & Deferred Inflows	(198,763,602)		(198,763,602)	
Current Ratio	2.161		2.164	0.14%
Total Assets & Deferred Outflows	435,588,761	4,632,614	440,221,375	1.06%
Total Liabilities & Deferred Inflows	(272,530,585)	(1,845,031)	(274,375,616)	0.68%
Total Net Position	(163,058,176)	(2,787,583)	(165,845,759)	1.71%
Operating Revenues	(342,165,294)	511,053	(341,654,241)	-0.15%
Operating Expenses	386,708,070	(1,802,735)	384,905,335	-0.47%
Nonoperating (Revenues) Exp	(58,473,569)	367,733	(58,105,836)	-0.63%
Change in Net Position	(13,930,793)	(923,949)	(14,854,742)	6.63%

Client: Midland County Hospital District
Period Ending: September 30, 2021

Major Enterprise Fund

SCHEDULE OF UNCORRECTED MISSTATEMENTS (ADJUSTMENTS PASSED)

Description	Financial Statement Line Item	Factual (F), Judgmental (J) or Projected (P)	Assets & Deferred Outflows		Liabilities & Deferred Inflows		Operating Revenues	Operating Expenses	Nonoperating (Revenues) Exp	Net Position	Net Effect on Following Year	
			Current	Noncurrent	Current	Noncurrent					Change in Net	
			DR (CR)	DR (CR)	DR (CR)	DR (CR)					Position	Net Position
Turnaround effect: To record FY 20 Medicare cost report estimate		F	0	0	0	0	1,918,000	0	0	(1,918,000)	0	0
	Net patient care revenues						1,918,000					
	Net position									(1,918,000)		
											N/A - Turnaround effect	
Turnaround effect: To adjust accrued payroll on PCI and MTOG for overaccrual		F	0	0	0	0	0	503,634	0	(503,634)	0	0
	Salaries and benefits							503,634				
	Net position									(503,634)		
											N/A - Turnaround effect	
Turnaround effect: Estimated understatement of NH management fee payable		F	0	0	0	0	0	(558,000)	0	558,000	0	0
	Other-Nursing Homes							(558,000)				
	Net position									558,000		
											N/A - Turnaround effect	
To adjust sales tax receivable		F	530,708	0	0	0	0	0	(530,708)	0	530,708	(530,708)
	Sales tax receivable		530,708									
	Sales tax revenue								(530,708)		530,708	(530,708)
To adjust patient accounts receivable to net realizable value		J	1,750,000	0	0	0	0	(1,750,000)	0	0	0	0
	Bad debt allowance		1,750,000									
	Credit balances											
	Bad debt expense							(1,750,000)				
											N/A-Judgemental Estimate	
To adjust QIPP settlements		F	1,437,589	0	(1,845,031)	0	0	407,442	0	0	(407,422)	407,422
	Estimated amounts due from third-party		1,437,589									
	Estimated amounts due to third-party payers				(1,845,031)							
	Other - Nursing Homes							407,442			(407,422)	407,422
To adjust prepaid CHIRP		F	1,330,705	0	0	0	(1,330,705)	0	0	0	1,330,705	(1,330,705)
	Third-party settlements		1,330,705									
	Net patient service revenue						(1,330,705)				1,330,705	(1,330,705)
To record FY 21 cost report estimate		F	1,326,794	0	0	0	(1,326,794)	0	0	0	1,326,794	(1,326,794)
	Third-party settlements		1,326,794									
	Net patient service revenue						(1,326,794)				1,326,794	(1,326,794)
To adjust DSRIP receivable		F	(1,250,552)	0	0	0	1,250,552	0	0	0	(1,250,552)	1,250,552
	Third-party settlements		(1,250,552)									
	Net patient service revenue						1,250,552				(1,250,552)	1,250,552
To adjust Foundation receivable		F	(898,441)	0	0	0	0	0	898,441	0	(898,441)	898,441
	Other receivables		(898,441)									
	Other nonoperating revenue								898,441		(898,441)	898,441
To adjust depreciation expense		F	0	405,811	0	0	0	(405,811)	0	0	405,811	(405,811)
	Capital assets, net			405,811								
	Depreciation and amortization							(405,811)			405,811	(405,811)
Total passed adjustments			4,226,803	405,811	(1,845,031)	0	511,053	(1,802,735)	367,733	(1,863,634)	1,037,603	(1,037,603)

Impact on Change in Net Position (923,949)

Impact on Net Position (2,787,583)

SCHEDULE OF UNCORRECTED MISSTATEMENTS (NOTES TO THE FINANCIAL STATEMENTS)

Uncorrected and/or Omitted Disclosures (Include Guidance Reference)	Misstatement Type	Quantitative Amount(s)	Relevant Financial Statement Line(s)
2020 Statement of Cash Flows Cash payments to suppliers for goods and services (overstated by \$4.7 million) Cash received from others (overstated by \$4.7 million) No change to net cash provided by operating activities Reconciliation of Operating Loss to Net Cash provided by Operating Activities: Changes in: Other accounts receivable (the source of cash was overstated by \$4.7 million) Accounts payable and accrued liabilities (the use of cash was overstated by \$4.7 million) No change to net cash provided by operating activities	Uncorrected	Described in first column	Described in first column