

Financial Statements and Report of Independent Certified Public Accountants

Midland County Hospital District

September 30, 2017 and 2016

Midland County Hospital District

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Audit Committee
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Report on the financial statements

We have audited the accompanying financial statements of Midland County Hospital District (the “District”) and its discretely presented component unit as of and for the years ended September 30, 2017 and 2016, 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 opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District’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 District’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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District and its discretely presented component unit as of September 30, 2017 and 2016, and the respective changes in financial position and, where applicable, cash flows thereof 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 on pages 3 through 8 and the Statement of Changes in the Net Pension Liability and Related Ratios and Statement of Employer Contributions on page 56 and 57, respectively, be presented to supplement the basic financial statements. Such information, although not a required 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. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Divisional Statements of Net Position and Divisional Schedule of Revenues, Expenses and Changes in Net Position are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



Dallas, Texas
February 16, 2018

Midland County Hospital District

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

September 30, 2017 and 2016

Introduction

The discussion and analysis of Midland County Hospital District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal years ended September 30, 2017 and 2016. Please read this section in conjunction with the District's financial statements, starting on page 9 and the notes to the financial statements, starting on page 14.

Using this Annual Report

The District's financial statements consist of three statements—a statement of net position; a statement of revenues, expenses and changes in net position; and a statement of cash flows. These 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 Statement of Net Position and Statement of Revenues, Expenses, and Changes in Net Position

The Statement of Net Position and the Statement of Revenues, Expenses and Changes in Net Position report information about the District's resources and its activities that describe the financial results of the fiscal years ended September 30, 2017 and 2016, and its financial position at September 30, 2017 and 2016. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These statements report the District's net position and changes in it. Net position is the difference between the sum of the assets and deferred outflows of resources and the sum of the liabilities and deferred inflows of resources of the District. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors such as changes in the District's patient base and measures of the quality of services it provides to the community, as well as local economic factors should also be considered when assessing the overall health of the District.

Statements of Cash Flows

This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It describes sources of cash, uses of cash and the change in the cash and cash equivalents balance during the fiscal years ended September 30, 2017 and 2016.

Midland County Hospital District

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

September 30, 2017 and 2016

Financial Comparisons – Condensed Summary of Statements of Net Position (\$'s in millions)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash, cash equivalents and short term investments	\$ 40.1	\$ 33.9	\$ 32.5
Cash, cash equivalents and short term investments-Nursing Homes	1.5	-	-
Net patient accounts receivable	41.1	39.9	39.6
Net patient accounts receivable-Nursing Homes	4.9	-	-
Other current assets	<u>47.4</u>	<u>45.2</u>	<u>40.3</u>
Total current assets	135.0	119.0	112.4
Capital assets, net of accumulated depreciation	232.4	236.4	244.2
Other assets	<u>19.5</u>	<u>18.5</u>	<u>26.2</u>
Total assets	386.9	373.9	382.8
Deferred outflows of resources	<u>4.6</u>	<u>6.7</u>	<u>6.7</u>
Total assets and deferred outflows of resources	<u>\$391.5</u>	<u>\$380.6</u>	<u>\$389.5</u>
Accounts payable and accrued liabilities	\$ 19.1	\$ 20.0	\$ 24.5
Accounts payable and accrued liabilities-Nursing Homes	6.4	-	-
Current maturities of long-term debt and bonds payable	10.9	17.0	14.7
Other current liabilities	<u>16.9</u>	<u>14.5</u>	<u>14.6</u>
Total current liabilities	53.3	51.5	53.8
Long-term debt and other liabilities	90.2	86.4	57.5
General obligation bonds payable	<u>95.5</u>	<u>99.4</u>	<u>101.2</u>
Total liabilities	239.0	237.3	212.5
Deferred inflows of resources	4.1	5.1	2.2
Net position			
Net investment in capital assets	88.0	103.4	109.1
Restricted – expendable	22.6	17.4	17.8
Unrestricted	<u>37.8</u>	<u>17.4</u>	<u>47.9</u>
Total net position	<u>148.4</u>	<u>138.2</u>	<u>174.8</u>
Total liabilities, deferred inflows of resources and net position	<u>\$391.5</u>	<u>\$380.6</u>	<u>\$389.5</u>

Midland County Hospital District

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

September 30, 2017 and 2016

As of September 30, 2017, the District had \$391.5 million in total assets and deferred outflows of resources. This is an increase of \$10.9 million and \$2.0 million decrease from 2016 and 2015, respectively. Listed below are some major factors affecting the District's financial position during these periods.

1. Qualification as a Disproportionate Share Hospital ("DSH") – the District continued to qualify for the State of Texas' Medicaid disproportionate share program based on available DSH funds, the District's adjusted specific limit, the State's Medicaid cost containment initiative, and the DSH reimbursement methodology. The District received \$8.5 million in disproportionate share program funding during 2017, \$5.9 million from the disproportionate share program for the District's fiscal year 2016, and \$6.9 million from the disproportionate share program for the state's fiscal year 2015.
2. Texas Medicaid Waiver – In 2012, the District started receiving funds from the State of Texas' Section 1115(a) Medicaid Waiver (the "Waiver") program. The District receives payments through both the Uncompensated Care ("UC") and Delivery System Reform Incentive Payment Pool ("DSRIP") funding components of the Waiver. UC payments reimburse providers for a portion of the unpaid costs of Medicaid and uninsured patients. DSRIP payments are based on approved plans that have identified approaches, baseline data and timelines for transforming and improving indigent and Medicaid health care systems to improve the patient's experience, increase quality and better manage costs in Medicaid and indigent programs. The total revenue recognized under the Waiver was \$18.0 million for 2017, \$23.0 million for 2016, and \$24.8 million for 2015. At September 30, 2017, the District recorded a receivable related to the Waiver in the amount of \$6.4 million (which is net of required intergovernmental transfer payments (IGT) of \$14.6 million) in other current assets. The net receivable as of September 30, 2016 and 2015 was \$5.9 million and \$17.9 million, respectively.
3. Network Access Improvement Program – In September 2015, the District starting participating in the State of Texas Network Access Improvement Program. The District receives payment from the network provider First Care, net of IGT commitment. For fiscal years 2017, 2016 and 2015, the District recorded total revenue of \$5.8 million, \$5.9 million and \$458 thousand, respectively. At September 30, 2017, the District recorded a receivable related to the NAIP in the amount of \$1.9 million net of intergovernmental transfer payments of \$3.3 million. The net receivable as September 30, 2016 and 2015 was \$2.0 million and \$543 thousand, respectively.
4. During 2017, the District opted into participating in the Quality Incentive Payment Program ("QIPP"), a State of Texas Medicaid Program, through the operation of five nursing homes. The District has made one intergovernmental transfer into the program during fiscal year 2017 in the amount of \$1,114,481; receipts on the program are expected to begin in March 2018. The District recorded a net receivable as of September 30, 2017 in the amount of \$1.1 million in other assets. Please see *footnote (1)* concerning the District entering into a Management Agreement with Trinity Healthcare for day to day management of nursing homes.
5. During 2009, the District issued \$115 million in Series A and Series B general obligation bonds to fund the construction and equipping of a new nine story patient tower. All bond proceeds had been expended as of September 30, 2012. Outstanding principal of the General Obligation Bonds was \$98.4 million at September 30, 2017; \$102.1 million at September 30, 2016; and \$103.7 million at September 30, 2015, which includes a premium of \$0.1, and \$0.1, million, respectively for September 30, 2016 and September 30, 2015.
6. During 2015, the District obtained a line of credit for \$10 million and borrowed the full amount, as discussed in *Note 6* as of September 30, 2016. This line of credit was fully paid off in September 2017.

Midland County Hospital District

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

September 30, 2017 and 2016

7. During 2016, the District obtained a Taxable Note in the amount of \$35 million to purchase an additional 25 percent beneficial interest in a net revenue sharing agreement in relationship to outpatient Diagnostic Imaging, as discussed in *Note 1*.
8. Cash, cash equivalents and short term investments increased from 2016 to 2017 by \$7.7 million or 23% due to a change in reimbursement received from Medicare and Medicaid along with the sale of the Legends property, which resulted in an increase in cash of \$5.4 million.

Midland County Hospital District

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

September 30, 2017 and 2016

Financial Comparisons – Condensed Summary of Revenues, Expenses and Changes in Net Position for the years ended September 30, 2017, 2016 and 2015 (\$'s in millions)

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Revenues:			
Net patient care revenues	\$270.1	\$258.0	\$262.4
Net patient care revenues-Nursing Homes	13.0	-	-
Other income	<u>28.1</u>	<u>22.4</u>	<u>13.0</u>
Total revenues	311.2	280.4	275.4
Expenses			
Salaries and fringe benefits	161.7	156.2	149.1
Supplies	49.3	51.0	49.8
Other	48.9	52.2	52.7
Other-Nursing Homes	13.0	-	-
Depreciation and amortization	<u>23.7</u>	<u>22.3</u>	<u>21.5</u>
Total expenses	<u>296.6</u>	<u>279.1</u>	<u>273.1</u>
Income from operations	14.6	1.3	2.3
Other nonoperating income (expense)			
Ad valorem tax support	29.4	27.6	25.9
Interest on long-term debt	(6.8)	(6.7)	(6.0)
Other nonoperating loss	(22.1)	(55.6)	(21.7)
Investment income	<u>0.1</u>	<u>0.1</u>	<u>0.3</u>
Total other nonoperating (loss) income	<u>0.6</u>	<u>(34.6)</u>	<u>(1.5)</u>
Income (loss) before distribution to other Beneficial owners and capital grants and gifts	15.2	(33.3)	0.8
Distribution to other beneficial owners in partnership	(7.1)	(8.5)	(11.5)
Capital grants and gifts	<u>2.1</u>	<u>5.1</u>	<u>0.5</u>
Change in net position	<u>\$ 10.2</u>	<u>\$ (36.7)</u>	<u>\$ (10.2)</u>

The District reported a gain before distribution to other beneficial owners and capital contributions of \$15.2 million for the year ended September 30, 2017, a loss before distributions to other beneficial owners and capital contributions of \$33.3 million for the year ended September 30, 2016, and income of \$0.8 million for the year ended September 30, 2015. The District's financial performance was affected by some major changes that are summarized below:

1. Total revenues, excluding the Nursing Homes increased from 2016 to 2017 by \$17.8 million and from 2015 to 2016 by \$5 million. The primary cause in the increase from 2016 to 2017 was increase in patient utilization and the increase in recoveries from Medicare bad debts. The increase from 2015 to 2016 was due to increase in patient utilization.

Midland County Hospital District

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

September 30, 2017 and 2016

2. Total salaries and fringe benefits increased by 4% or \$5.6 million from 2016 to 2017; and increased by 4.8% or \$7.1 million from 2015 to 2016. This change reflects increases in FTE's during 2017 due to increased patient volumes. In addition, pension expense decreased approximately \$1.5 million related to changes in assumptions for life expectancy.
3. Supplies expense decreased in 2017 by \$0.3 million, or 1%, due to changes in volume and group purchasing initiatives. Supplies expense decreased in 2015 to 2016 by \$0.3 million, or 0.6% due to changes in volume and group purchasing initiatives.
4. Other non-operating loss in 2016 includes the effect of the purchase of additional beneficial interest in the net revenue sharing agreement with a Radiologist practice from a 50 percent share to 75 percent share; this buy-out is related to future revenue stream activity for the diagnostic service line for \$30.2 million as discussed in *Note 1*.

Capital Asset and Debt Administration

Capital assets decreased from 2016 to 2017 by \$4.0 million and decreased from 2015 to 2016 by \$7.8 million as shown in *Note 5* to the basic financial statements.

During 2014, the District borrowed \$10 million under a revolving line of credit agreement. In September 2009, the District issued \$115 million in general obligation bonds for the construction of the patient tower. In 2012, the District refinanced the Series 1997 bonds through issuance of the Series 2012 bonds as discussed further in *Note 6*. In 2016, the District borrowed \$35 million for the purchase of interest in a net revenue agreement as discussed further in *Note 6*. In 2017 the District borrowed \$15.5 million for the funding of a new electronic medical record system as discussed further in *Note 6*.

Economic Factors and Next Year's Outlook

The District adopted a maintenance and operating ad valorem rate of \$0.101775 for 2017 that was lower than the adopted rate for fiscal year 2016 at \$0.10325 per \$100 valuation. The District also approved \$0.028219 per \$100 valuation for fiscal year 2017 to pay the principal and interest in relation to the general obligation bond (see *Note 6*). Due to increasing taxable property values, the rate increase is expected to generate additional annual revenues of \$1.8 million from the revenues generated in 2016.

The District's budgeted increase in net position is \$5.8 million for fiscal year 2018. This is based on the assumption that patient volumes will be sustainable with some moderate growth from those achieved in 2017. The 2018 budget includes annual rate adjustment assumptions which are expected to increase the District's net patient revenues by \$2.4 million.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, and creditors with a general overview of the District's finances and to show the District's accountability for the money received. Questions about this report and requests for additional financial information should be directed to the District's Administrative Office at Midland County Hospital District, 400 Rosalind Redfern Grover Parkway, Midland, TX 79701.

Midland County Hospital District

STATEMENTS OF NET POSITION

September 30, 2017 and 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2017		2016	
	The District	Component Unit Foundation	The District	Component Unit Foundation
Current assets				
Cash and cash equivalents	\$ 21,401,984	\$ 504,318	\$ 14,984,013	\$ 240,717
Cash and cash equivalents-Nursing Homes	1,475,914	-	-	-
Cash designated for other capital projects	10,825,255	-	10,923,926	-
Short-term investments	7,921,865	29,746,096	7,976,576	25,728,641
Tax receivable	845,492	-	660,903	-
Patient accounts receivable, less allowance for doubtful accounts of \$24,546,931 in 2017 and \$22,609,193 in 2016	41,090,526	-	39,863,391	-
Patient accounts receivable-Nursing Homes, net	4,901,927	-	-	-
Inventories	8,453,916	-	8,436,697	-
Prepaid expenses	2,757,983	-	2,992,339	-
Other receivables	8,803,504	27,049	8,524,186	27,049
Amounts due from Medicare and Medicaid	16,198,160	-	19,534,361	-
Self-funded insurance funds, current	952,610	-	1,129,818	-
Investments designated for bond indenture	<u>9,348,729</u>	<u>-</u>	<u>3,973,188</u>	<u>-</u>
Total current assets	134,977,865	30,277,463	118,999,398	25,996,407
Noncurrent cash and investments limited as to use				
Restricted under debt agreement	2,464,160	-	2,460,314	-
Self-funded insurance funds	1,335,823	-	1,052,198	-
Donor restricted funds	<u>-</u>	<u>26,303,605</u>	<u>-</u>	<u>12,548,101</u>
Total noncurrent cash and investments limited as to use	<u>3,799,983</u>	<u>26,303,605</u>	<u>3,512,512</u>	<u>12,548,101</u>
Capital assets, net of accumulated depreciation	<u>232,394,391</u>	<u>168,162</u>	<u>236,449,791</u>	<u>168,162</u>
Other assets				
Goodwill and intangible assets, net of accumulated amortization of \$2,943,299 in 2017 and \$2,735,302 in 2016	3,362,870	-	3,570,867	-
Other	<u>12,431,360</u>	<u>-</u>	<u>11,363,783</u>	<u>-</u>
Total other assets	<u>15,794,230</u>	<u>-</u>	<u>14,934,650</u>	<u>-</u>
Total assets	386,966,469	56,749,230	373,896,351	38,712,670
Deferred outflows of resources	<u>4,628,440</u>	<u>-</u>	<u>6,669,916</u>	<u>-</u>
Total assets and deferred outflows of resources	<u>\$391,594,909</u>	<u>\$56,749,230</u>	<u>\$380,566,267</u>	<u>\$38,712,670</u>

Midland County Hospital District

STATEMENTS OF NET POSITION - CONTINUED

September 30, 2017 and 2016

	<u>2017</u>		<u>2016</u>	
LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	<u>The District</u>	<u>Component Unit Foundation</u>	<u>The District</u>	<u>Component Unit Foundation</u>
Current liabilities				
Accounts payable and accrued liabilities	\$ 19,091,881	\$ 480,855	\$ 19,958,765	\$ 267,931
Accounts payable and accrued liabilities-Nursing Homes	6,377,841	-	-	-
Accrued interest payable	1,663,508	-	2,007,838	-
Accrued payroll	11,970,355	-	9,787,407	-
Accrued self-insurance liabilities	3,263,999	-	2,718,167	-
Current maturities of general obligation bonds payable	2,860,000	-	1,727,750	-
Current maturities of long-term debt	<u>8,076,287</u>	<u>-</u>	<u>15,241,677</u>	<u>-</u>
Total current liabilities	53,303,871	480,855	51,441,604	267,931
Payable for pension obligation	24,530,235	-	26,346,100	-
Interest rate swap	684,827	-	1,237,011	-
Long-term debt and other liabilities	64,988,438	-	58,868,387	-
General obligation bonds payable	<u>95,520,000</u>	<u>-</u>	<u>99,406,458</u>	<u>-</u>
Total liabilities	<u>239,027,371</u>	<u>480,855</u>	<u>237,299,560</u>	<u>267,931</u>
Deferred inflows of resources	<u>4,127,386</u>	<u>-</u>	<u>5,085,261</u>	<u>-</u>
NET POSITION				
Net investment in capital assets	87,964,754	168,162	103,450,446	168,162
Restricted - expendable for capital assets	10,825,255	10,610,825	10,923,926	6,978,329
Restricted - expendable for debt service	11,812,888	-	6,433,502	-
Restricted - nonexpendable	-	47,867,171	-	33,337,276
Unrestricted	<u>37,837,255</u>	<u>(2,377,783)</u>	<u>17,373,572</u>	<u>(2,039,028)</u>
Total net position	<u>148,440,152</u>	<u>56,268,375</u>	<u>138,181,446</u>	<u>38,444,739</u>
Total liabilities, deferred inflows of resources and net position	<u>\$391,594,909</u>	<u>\$56,749,230</u>	<u>\$380,566,267</u>	<u>\$38,712,670</u>

Midland County Hospital District

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years ended September 30, 2017 and 2016

	2017		2016	
	The District	Component Unit Foundation	The District	Component Unit Foundation
Revenues				
Net patient care revenues	\$270,136,426	\$ -	\$258,044,402	\$ -
Net patient care revenues-Nursing Homes	12,973,529	-	-	-
Other income	<u>28,114,601</u>	<u>19,211,038</u>	<u>22,332,959</u>	<u>934,323</u>
Total revenues	311,224,556	19,211,038	280,377,361	934,323
Expenses				
Salaries and fringe benefits	161,729,308	-	156,169,663	-
Supplies	49,262,947	-	49,628,778	-
Other	48,930,117	4,331,034	50,991,383	3,834,164
Other-Nursing Homes	12,973,529	-	-	-
Depreciation and amortization	<u>23,656,272</u>	<u>-</u>	<u>22,360,904</u>	<u>-</u>
Total expenses	<u>296,552,173</u>	<u>4,331,034</u>	<u>279,150,728</u>	<u>3,834,164</u>
Income (loss) from operations	14,672,383	14,880,004	1,226,633	(2,899,841)
Other nonoperating income (expense)				
Ad valorem tax support	29,353,487	-	27,590,399	-
Investment income gain	124,783	2,943,632	141,374	1,804,179
Other nonoperating gain (loss)	3,670,995	-	(30,119,357)	-
Contributions to government programs	(25,781,122)	-	(25,481,122)	-
Interest on long-term debt	<u>(6,775,156)</u>	<u>-</u>	<u>(6,724,061)</u>	<u>-</u>
Total other nonoperating income (expense)	<u>592,987</u>	<u>2,943,632</u>	<u>(34,592,767)</u>	<u>1,804,179</u>
Income (loss) before distribution to other beneficial owners of partnership and capital grants and gifts	15,265,370	17,823,636	(33,366,134)	(1,095,662)
Distributions to other beneficial owners of partnership	(7,095,586)	-	(8,548,050)	-
Capital grants and gifts	<u>2,088,922</u>	<u>-</u>	<u>5,134,887</u>	<u>-</u>
Change in net position	10,258,706	17,823,636	(36,779,297)	(1,095,662)
Net position – beginning of year	<u>138,181,446</u>	<u>38,444,739</u>	<u>174,960,743</u>	<u>39,540,401</u>
Net position – end of year	<u>\$148,440,152</u>	<u>\$56,268,375</u>	<u>\$138,181,446</u>	<u>\$ 38,444,739</u>

Midland County Hospital District

STATEMENTS OF CASH FLOWS

Years ended September 30, 2017 and 2016

	2017	2016
Cash flows from operating activities		
Cash received for patient care	\$ 274,442,381	\$ 257,963,378
Cash received for patient care-Nursing Homes	8,071,601	-
Cash received from others	25,638,395	20,095,074
Cash payments to suppliers for goods and services	(98,842,810)	(106,260,707)
Cash payments to suppliers for goods and services-Nursing Homes	(6,595,687)	-
Cash payments to employees for services	<u>(158,402,169)</u>	<u>(157,544,338)</u>
Net cash provided by operating activities	44,311,711	14,253,407
Cash flows from noncapital financing activities		
Ad valorem tax support	22,242,871	20,062,811
Contributions to government programs	<u>(25,781,122)</u>	<u>(25,481,122)</u>
Net cash used in noncapital financing activities	(3,538,251)	(5,418,311)
Cash flows from capital and related financing activities		
Ad valorem tax support related to general obligation bonds	6,926,027	7,293,326
Proceeds from issuance of long-term debt	15,500,000	48,508,000
Proceeds from temporary letter of credit	5,000,000	-
Principal payments on general obligation bonds	(2,735,000)	(2,605,000)
Principal payments on long-term debt obligations	(21,414,717)	(14,693,879)
Interest paid on long-term debt obligations	(2,833,444)	(2,045,835)
Interest paid on general obligation funds	(4,302,872)	(4,432,271)
Proceeds from future revenue distributions	(255,000)	1,105,000
Purchases of capital assets	(19,392,874)	(14,273,480)
Contributions for capital purchases	<u>2,088,922</u>	<u>5,134,887</u>
Net cash (used in) provided by capital and related financing activities	(21,418,958)	23,990,748
Cash flows from investing activities		
Interest income	124,783	141,371
Purchase of investments in joint ventures	-	(35,508,000)
Other investing activity, net	2,603,418	3,599
Distributions to other beneficial owners	(7,095,586)	(8,548,050)
Sale of investments	892,894	4,965,414
Purchase of investments	<u>(8,080,951)</u>	<u>(400,000)</u>
Net cash used in investing activities	<u>(11,555,442)</u>	<u>(39,345,666)</u>
Net increase (decrease) in cash and cash equivalents	7,799,060	(6,519,822)
Cash and cash equivalents, beginning of year	<u>28,368,253</u>	<u>34,888,075</u>
Cash and cash equivalents, end of year	<u>\$ 36,167,313</u>	<u>\$ 28,368,253</u>

Midland County Hospital District

STATEMENTS OF CASH FLOWS

Years ended September 30, 2017 and 2016

	2017	2016
Reconciliation of cash and cash equivalents to statements of net position:		
Cash and cash equivalents	\$21,401,984	\$14,984,013
Cash and cash equivalents-Nursing Homes	1,475,914	-
Restricted under debt agreement	2,464,160	2,460,314
Cash designated for other capital projects	<u>10,825,255</u>	<u>10,923,926</u>
Cash and cash equivalents	<u>\$36,167,313</u>	<u>\$28,368,253</u>
Reconciliation of operating income to net cash provided by operating activities		
Operating income	\$14,672,383	\$ 1,226,633
Depreciation and amortization	23,656,272	22,360,904
Changes in operating assets and liabilities		
Net patient accounts receivable	(1,227,135)	(272,118)
Net patient accounts receivable-Nursing Homes	(4,901,927)	-
Inventories	(17,219)	(203,825)
Prepaid expenses	234,356	(861,747)
Other receivables	(279,318)	(164,827)
Amounts due from/to Medicare and Medicaid	3,336,201	(1,881,964)
Accrued self-insurance liabilities	545,832	652,135
Accrued payroll	2,182,948	(969,114)
Accounts payable and accrued liabilities	(866,884)	(4,574,974)
Accounts payable and accrued liabilities-Nursing Homes	6,377,841	-
Payable for pension	(1,815,865)	(1,563,411)
Deferred outflows of resources	2,041,476	(325,665)
Deferred inflows of resources	<u>372,750</u>	<u>831,381</u>
Net cash provided by operating activities	<u>\$44,311,711</u>	<u>\$14,253,408</u>
Supplemental disclosure of noncash financing and investment activities		
Amortization of bond premiums and discounts	<u>\$ (19,208)</u>	<u>\$ (51,762)</u>
Capital assets in accounts and retainage payable	<u>\$ 2,597,999</u>	<u>\$ 289,930</u>

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS

September 30, 2017 and 2016

NOTE 1 - NATURE OF OPERATIONS AND REPORTING ENTITY

The Midland County Hospital District (the "District") is a political subdivision of the state of Texas and is also tax-exempt under Section 501(c)(3) of the Internal Revenue Code. It was formed for the purpose of establishing a hospital or a hospital system to furnish hospital and medical care to the residents of Midland County. Residents of Midland County elect the board of directors, which has the authority to levy ad valorem taxes on property located within Midland County. The District has two divisions: a healthcare operations division (the "Hospital") and an ad valorem tax administration division which administers all receipts and disbursements related to the ad valorem taxes.

The accompanying financial statements present the District and its component units, entities for which the District is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended units are appropriately presented as funds of the primary government. Discretely presented component units are reported in a separate column in the financial statements to emphasize that they are legally separate from the government.

Unless otherwise noted, the following notes do not include the discretely presented component unit.

Blended Component Units. Midland Memorial, Inc. ("MMI") is a corporation established as a Texas Nonprofit Corporation. The District is the sole corporate member of MMI, which is included as a blended component unit in the accompanying financial statements. Financial activity of MMI consists solely of ownership of shares in joint ventures and related income. Separate financial statements are not issued for MMI.

Midland Memorial Healthcare System ("MMHS") is a nonprofit corporation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. MMHS shares the same board of directors as the District and is included as a blended component unit in the accompanying financial statements. Financial activity of MMHS consists solely of ownership of shares in joint ventures. Separate financial statements are not issued for MMHS.

Premier Family Care ("PFC") is a Texas nonprofit corporation established under the Texas Medical Practice Act. PFC was organized February 1, 1996 to provide patient health care services to the public and provide a path for recruiting and employing physicians to fill the needs of the community. The District is the sole member of PFC, which is included as a blended component unit in the accompanying financial statements.

Permian Cardiology, Inc. ("PCI") is a Texas nonprofit corporation established under the Texas Medical Practice Act. PCI was organized May 19, 2012 to provide patient health care services to the public and engage in the instruction of the general public in the area of medical science, public health and hygiene and related instruction useful to the individual and beneficial to the community. The District is the sole member of PCI, which is included as a blended component unit in the accompanying financial statements.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 1 - NATURE OF OPERATIONS AND REPORTING ENTITY - Continued

Midland, Texas Orthopedic Group, Inc. (“MTOG”) is a Texas nonprofit corporation established under the Texas Medical Practice Act. MTOG was organized November 22, 2013 to provide patient health care services to the public and engage in the instruction of the general public in the area of medical science, public health and hygiene and related instruction useful to the individual and beneficial to the community. The District is the sole member of MTOG, which is included as a blended component unit in the accompanying financial statements.

MMH Physicians d/b/a Midland Inpatient Medical Associate. (“MIMA”) is a Texas nonprofit corporation established under the Texas Medical Practice Act. MIMA was organized September 9, 2013 to provide patient health care services to the public and engage in the instruction of the general public in the area of medical science, public health and hygiene and related instruction useful to the individual and beneficial to the community. The District is the sole member of MIMA, which is included as a blended component unit in the accompanying financial statements.

In April 2017, the District assumed ownership of five nursing homes in West Texas to participate in the Quality Incentive Payment Program (QIPP). As of April 1, 2017, the District assumed ownership of the following Nursing Homes: Monahans Nursing Operations, LLC, Midland Nursing Operations, LLC known as Rockwood Manor, Odessa Nursing Operations LLC known as Seabury Nursing Facility, Midland Sage Nursing Operations, LLC, known as Hogan Park and Fort Stockton Living & Rehabilitation. The District also entered into a Management Agreement with Trinity Healthcare for day to day management of the homes.

The total expense related to nursing homes of approximately \$12 million for the year ended September 30, 2017 relates to the following activities:

Salaries and fringe benefits	\$ 4,143,997
Other operating expenses	6,978,077
Management fee expense	1,822,100
Depreciation and amortization expense	<u>29,355</u>
Total other expense – nursing home	<u>\$12,973,529</u>

Separate financial statements are not issued for PFC, PCI, MTOG and MIMA, which are collectively referred to as the “501(a) entities.”

Discretely Presented Component Unit. Midland Memorial Foundation (the “Foundation”) is a legally separate, tax-exempt 501(c)(3) entity. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the District in support of its programs. The 28-member board of the Foundation is self-perpetuating. Although the District does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to the activities of the District by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the District, the Foundation is included as a discretely presented component unit in the District’s financial statements.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 1 - NATURE OF OPERATIONS AND REPORTING ENTITY - Continued

The Foundation distributed \$2,145,084 and \$1,729,504 to the District for the years ending September 30, 2017 and 2016, respectively, for both restricted and unrestricted purposes. Separate financial statements for the Foundation can be obtained from the Administrative Office at 400 Rosalind Redfern Grover Parkway, Midland, TX 79701.

Joint Ventures. The District has entered into a number of joint ventures that are generally reported as equity investments.

In 2010, the District joined with other healthcare organization investors to form Texas Healthcare Linen, LLC (“THL”). The District is a 33% investor in THL, and the District contracts with THL for most linen services which amounted to approximately \$1.2 and \$1.3 million for 2017 and 2016, respectively. In 2012, the District joined with another healthcare organization to form the Midland Memorial/USP Surgery Centers, LLC (“MMUSC”) as a 50.1% investor. The MMUSC was formed to purchase a 51% interest in the Midland Texas Surgical Center, LLC resulting in a net interest of 26.15%. The District appoints two of the four voting members of MMUSC.

In 2014, the District joined with other healthcare organization investors to form ContinueCare Hospital of Midland, Inc. (“CCH”). The District is entitled to an 80% share of the profits and losses in CCH, and the District has agreements with CCH for leasing of facility space as well as ancillary services. The revenue reported under these contracts amounted to approximately \$1.2 million and \$1.5 million for 2017 and 2016, respectively and unpaid amounts under these contracts as of September 30, 2017 and 2016 amounted to approximately \$3.6 million and \$3.7 million, respectively. Additionally, the District entered into a line of credit agreement with CCH to fund cash flow shortfalls up to \$2.5 million during the initial operating period at an interest rate of 3.25% with interest only due monthly through January 2016 followed by equal payments of principal and interest monthly through January 2019. The outstanding balance is \$2.7 million and \$2.6 million as of September 30, 2017 and 2016, respectively.

In July 2016 Midland Memorial, Inc. received a capital contribution from HealthSouth Rehabilitation Hospital of Midland/Odessa, LLC (“HealthSouth”) with a fair value in the amount of \$2,941,200 in exchange for a covenant not to compete for a term of 15 years, with an option to automatically renew with terms of five years. Along with the capital contribution, Midland Memorial, Inc. is entitled to 22% of HealthSouth’s operating gains and losses. As of September 30, 2017, the District has recorded an asset in the amount of \$4,011,675 which includes investment activity of \$808,800 which is reported in the Statement of Revenues, Expenses and Changes in Net Position. Separate financial statements are not issued for the joint ventures.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 1 - NATURE OF OPERATIONS AND REPORTING ENTITY - Continued

The District has certain agreements to distribute net revenues, as defined, of its outpatient diagnostic imaging services and occupational therapy practice to various investors. Under these arrangements, the District receives an initial payment in exchange for payment of future revenues derived from the assets to the investors. The ownership percentages of the District by service are shown below:

	<u>2017</u>	<u>2016</u>
MRI	75%	75%
Diagnostic Imaging	75%	75%
Mammography	75%	75%
Cardiology	75%	75%
Occupational Therapy	50%	50%

During fiscal years ended September 30, 2017 and 2016, the District distributed \$7,095,586 and \$8,548,050, respectively, in residual amounts to beneficial owners.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally property taxes) 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 (such as property taxes), investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The District first applies restricted resources when an expense or outlay is incurred for purposes for which both restricted and unrestricted resources are available.

Cash and Cash Equivalents

Cash equivalents are liquid investments with original maturities less than three months and consist primarily of certificates of deposit. The District maintains cash balances in financial institutions which, at times, may exceed federally insured limits. The District has not experienced losses on these accounts.

Investments and Investment Income

Investments are reported at fair value. Fair value is determined using quoted market prices. Investment income or loss, including realized and unrealized gains and losses on investments, are included as investment income.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventories

Inventories are stated at the lower of cost (determined on first in first out method) or market.

Capital Assets

Capital assets are stated at cost on the date of purchase or at fair market value on the date of donation if acquired by gift. Expenditures for capital assets and equipment and those that substantially increase the useful life of existing capital assets are capitalized. Ordinary maintenance and repairs are charged to expense when incurred. Upon disposition, the assets and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in non-operating revenues or expenses.

Depreciation and amortization of capital assets, including assets under capital leases, is provided on a straight-line basis over the estimated useful lives of the facilities and equipment, ranging from 3 to 40 years. Assets under capital leases are depreciated over the shorter of the lease term or their respective estimated useful lives.

The District capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for projects, net of interest earned on investments acquired with the proceeds of the borrowing. The District has not capitalized interest in either period being presented.

Goodwill

Goodwill represents the excess of the purchase price of net tangible and intangible assets acquired in business combinations over their estimated fair value. Goodwill is amortized over 40 years using the straight-line method. Amortization expense was approximately \$208,000 for the years ended September 30, 2017 and 2016. Amortization expense for each of the next five years will be:

Year ended September 30:

2018	\$ 186,048
2019	155,318
2020	155,318
2021	155,318
2022	155,318
Thereafter	2,555,550

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - Continued

Goodwill related to the purchase of Midland Imaging Center is reported on the Statements of Net Position under Deferred Outflows of Resources in the amount of \$2,525,000, net of accumulated goodwill amortization of \$419,166 and is being amortized using the straight-line method for ten years. Goodwill that is related to the non-compete covenant of \$10,000 is reflected in Deferred Outflows of Resources on the Statements of Net Position net of accumulated amortization of \$3,333 and is being amortized over five years. Amortization expense for each of the next five years will be:

Year ended September 30:

2018	\$253,500
2019	253,500
2020	253,500
2021	252,167
2022	251,500
Thereafter	838,334

Net Position

Net position of the District is classified as four components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the current balance of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net position includes amounts deposited with trustees as required by revenue bond indentures and cash and investments restricted for capital asset purchases. Restricted nonexpendable net position would include any undistributed amounts attributable to beneficial owners in a partnership. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

The Foundation's net position and its revenue, expenses, gains and losses are classified within the statements based on the existence or absence of donor-imposed restrictions as restricted or unrestricted. Restricted net position is classified as expendable and nonexpendable based on the nature of donor imposed restrictions.

Expendable net position is generally restricted for capital equipment and educational services. Nonexpendable net position must be held in perpetuity, the income from which may be used for various activities as directed by the donors.

Patient Accounts Receivable

The District reports its patient accounts receivable for services rendered at net realizable amounts due from third-party payers, patients, and others. The District provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions. As a service to the patient, the District bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - Continued

Ad Valorem 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.

Ad valorem taxes were assessed in fiscal years 2017 and 2016 on 100% of appraised property value at the rate of \$0.103250 and \$0.11984 per \$100 valuation, respectively. Approximately 26.1% of the assessed taxes were used for debt service obligations and the remaining 73.9% were used for operations for the years ended September 30, 2017 and 2016, respectively. The District's board has designated that all tax receipts for operations are to be used for providing capital acquisitions. The debt service obligations that are the basis for the approved tax rate include payments in the subsequent fiscal period; therefore, the portion of the debt service tax revenue that relates to the following year is deferred.

Net Patient Care Revenues

Net patient care revenues on the accompanying statements of revenues and expenses are stated net of contractual allowance and bad debt adjustments. Contractual allowance adjustments for the years ended September 30, 2017 and 2016 totaled \$670,563,789 and \$605,489,995, respectively. The provision for bad debt totaled \$59,864,343 and \$57,261,561 in 2017 and 2016, respectively. Patient accounts receivable on the accompanying statements of net position are also stated net of contractual allowance adjustments of \$83,111,172 and \$79,909,159 as of September 30, 2017 and 2016, respectively.

The District's contractual adjustments were derived primarily from patients participating in the Medicare and traditional and managed care Medicaid programs. Approximately 21% and 23% of net patient care revenue for September 30, 2017 and 2016 relates to these patients, respectively. Payments for inpatient Medicare and Medicaid beneficiaries are primarily based on prospectively determined rates associated with the classification of patients into diagnosis-related groups ("DRGs"). Services rendered to outpatient Medicare beneficiaries are reimbursed based on ambulatory payment classifications ("APCs"). Services rendered to outpatient Medicaid beneficiaries are primarily reimbursed under a cost reimbursement methodology if enrolled in the traditional Medicaid program, or under a fee schedule arrangement if enrolled in a Medicaid managed care product.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - Continued

The final settlement of amounts to be received from the Medicare and Medicaid programs is subject to final determination by the respective programs. The difference between the final determination and estimated amounts accrued is accounted for as an adjustment to patient care revenue in the year of final determination. The favorable effect of such adjustments increased net patient care revenue by approximately \$5.7 million and \$0.1 million for the years ended September 30, 2017 and 2016, respectively. During 2017, the District engaged an outside consulting firm to re-open five prior year cost reports for additional net recoveries. The total impact of these recoveries of \$3.7 million is reflected in the statement of net position as amounts due from Medicare and Medicaid. The District continues to use this firm for ongoing Cost Report years from 2017 to 2020. The District's Medicare cost reports have been settled by the Medicare administrative contractor through September 30, 2012. The District's Medicaid cost reports have been audited by the Medicaid administrative contractor through September 30, 2011.

The District must comply with various reporting and operating regulations mandated by each of the federal and state programs. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near future. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. The District believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

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.

The District qualifies for the State of Texas' Medicaid Disproportionate Share ("DSH") program based on available DSH funds, the District's adjusted specific limit, the State's Medicaid cost containment initiative, and the DSH reimbursement methodology. The District received approximately \$8.5 million and \$5.9 million from the disproportionate share program during the years ended September 30, 2017 and 2016, respectively which is recorded in the Statement of Revenues, Expenses and Change in Net Positions within net patient care revenues.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - Continued

In 2012, the state of Texas implemented a Section 1115(a) Medicaid Waiver program. Under this Waiver, hospitals are paid supplemental funds for uncompensated care (“UC”) costs and delivery system improvement projects (“DSRIP”). Payments are based on approved uncompensated costs and DSRIP projects, and payments are generated by intergovernmental transfer payments (“IGT”) that the District makes to the state of Texas Regional Healthcare Partnership 14 (“RHP”) which was formed in May 2012 and consists of fourteen counties, with an anchoring entity to help coordinate RHP activities. Payments are based on approved plans that have identified approaches, baseline data and timelines for transforming and improving indigent and Medicaid health care systems to improve the patient’s experience, increase quality and better manage costs in Medicaid and indigent programs. The total revenues reported for the years ended September 30, 2017 and 2016 under these programs was approximately \$18 million and \$23 million, respectively. The District recorded a receivable of \$6.4 million, net of required IGT funding of \$14.6 million, and a receivable of \$5.9 million, net of required IGT funding of \$13.7 million as of September 30, 2017 and 2016, respectively, under these programs.

During fiscal year 2005, the District signed an indigent care affiliation agreement with Ector County Hospital District (ECHD) and Odessa Regional Medical Center. This agreement was intended to increase funding for the Medicaid population and to access federal funding for the indigent population in Ector and Midland Counties. A needs assessment was performed to identify options to increase access to care in the most cost efficient environment and to ensure an adequate health care delivery system to meet the needs of the Medicaid and non-Medicaid indigent in Ector and Midland Counties. Odessa Regional Medical Center formed two non-profit corporations to provide care to the Medicaid and non-Medicaid indigent in Ector and Midland Counties. Some of this care was previously provided by the District and ECHD. As part of the affiliation agreement, the District provided \$25,781,122 and \$25,481,122 in funding to Odessa Regional Medical Center for the years ended September 30, 2017 and 2016, respectively.

Foundation Contributions

Contributions are recognized as revenue in the period in which the Foundation receives an unconditional promise to give. Contributions received with donor stipulations that limit the use of the donated assets are initially recorded as restricted support. When the donor imposed restriction has been satisfied, restricted net position is reclassified to unrestricted net position and reported in the statement of revenues, expenses and changes in net position as net position released from restrictions. Contributions received having donor-imposed restrictions that will be satisfied within twelve months from the date of donation are considered to be unrestricted.

Indigent Care

The District’s healthcare operational division provides care to patients who lack financial resources without charge or at amounts less than its established rates to patients meeting certain criteria under its indigent care policy. These individuals may qualify for three different types of indigent care coverage. The first coverage is based on the patient’s income compared to the poverty guidelines and their residency in the county. The second coverage is based on the patient’s income compared to the poverty guidelines without respect to their residency. The third coverage compares the patient’s income to the outstanding balance. The charges related to this care totaled \$10,595,661 and \$15,015,393 for the years ended September 30, 2017 and 2016, respectively.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - Continued

Because the District does not pursue collection of amounts determined to qualify as indigent care, these amounts are not reported as net patient care revenue. The costs of indigent care provided under the District's charity care policy were \$3,065,941 and \$4,707,243 for the years ended September 30, 2017 and 2016, respectively. The cost of charity care is estimated by applying the District's overall ratio of cost to gross charges to the gross indigent charges forgiven.

Compensated Absences

The District's employees earn vacation days at varying rates depending on years of service. Vacation time can be carried forward up to one year past the year in which it was accrued. Employees also earn sick leave benefits depending on full-time or part-time status. Employees may accumulate extended sick leave up to a maximum of 520 hours. Accumulated vacation is bought back at one hundred percent by the District upon termination of the employee with proper notice; however, accumulated sick leave is not bought back by the District. Accumulated sick leave is carried forward at a maximum of 520 hours until it is consumed by the employee or until an employee's termination. The District has recorded a liability for compensated absences of \$3,975,864 and \$3,859,715 at September 30, 2017 and 2016, respectively, and these amounts are included in accrued payroll in the accompanying statements of net position.

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 and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statements of Revenues, Expenses and Changes in Net Position

The District's statements of revenues, expenses and changes in net position distinguish between operating and non-operating revenues and expenses. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally property taxes) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses result from exchange transactions associated with providing health care services—the District's principal activity. Non-exchange revenues, including taxes, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - Continued

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 employee dishonesty, fiduciary liability, and property. 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 medical malpractice, general and automotive liability, workers compensation and employee health claims. Annual estimated provisions are accrued for the self-insured portion of these risks and includes an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Income Taxes

As an essential government function, the District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the District is subject to federal income tax on any unrelated business taxable income. The 501(a) entities and MMI are subject to federal income taxes and related filing requirements for corporations. Additionally, the Foundation and MMHS have been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. These entities are subject to federal income tax on any unrelated business taxable income. The District recorded a tax liability in the Statement of Net Position as of September 30, 2017 in the amount of \$1.4 million.

Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's defined benefit pension plan (the Plan) and additions to or 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 are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflow of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses) until then. The District has reported pension related items, goodwill, and interest rate swap fair value as a deferred outflow of resources. See *Note 3* for additional disclosure.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - Continued

In addition to liabilities, the statements of financial position report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has reported the deferred charges for property taxes with time restrictions, pension related items, and other outflows of resources. See *Note 3* for additional disclosure.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation. These reclassifications did not have an impact on total changes in net position or net position for the District.

Recent Accounting Pronouncements

GASB Statement No. 79 – *Certain External Investment Pools and Pool Participants*. This statement establishes specific financial reporting criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. The statement also establishes additional note disclosure for qualifying external investment pools. The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2015. All applicable provisions have been included in the District's financial statements as of September 30, 2016. This provision had no impact on the financial statements or related disclosures.

GASB Statement No. 80 – *Blending Requirements for Certain Component Units*. This statement adds a new criterion for presenting component units as blended in a government's financial statements. If the government is the sole corporate member of a not-for-profit corporation component, then the component unit should be blended. GASB 80 does not change the criteria for an entity being a component unit or the presentation of a blended component unit. The Statement is the result of practice issues raised, particularly in the health care industry, after implementation of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. The requirements of GASB 80 are effective for reporting periods beginning after June 15, 2016. The implementation of this standard had no impact on the financial statements or related disclosures.

GASB Statement No. 85 – *Omnibus 2017* – This statement addresses several accounting and financial reporting issues, including component unit presentation, goodwill, fair value measurement and postemployment benefits. The requirement of GASB 85 are effective for reporting periods beginning after June 15, 2017. The District is currently evaluating the impact of this standard on its financial statements and related footnote disclosures.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

**NOTE 3 - ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE, AND DEFERRED
OUTFLOWS AND INFLOW OF RESOURCES**

The District grants credit without collateral to its patients, many of whom are area residents and are uninsured under third-party payer agreements.

	2017	2016
Patient accounts receivable		
Receivable from patients and their insurance	\$ 57,171,271	\$ 53,449,493
Receivable from Medicare	5,022,520	6,156,413
Receivable from Medicaid	<u>3,443,666</u>	<u>2,866,678</u>
Total patient accounts receivable	65,637,457	62,472,584
Less allowance for doubtful accounts	<u>(24,546,931)</u>	<u>(22,609,193)</u>
Patient accounts receivable, net	<u>\$ 41,090,526</u>	<u>\$ 39,863,391</u>
Patient accounts Receivable-Nursing Homes, net	<u>\$ 4,901,927</u>	<u>\$ -</u>

Accounts payable and accrued liabilities at September 30, consisted of:

	2017	2016
Accounts payable and accrued liabilities		
Accounts payable	\$ 9,551,366	\$12,373,682
Payable for purchased services	2,819,368	2,185,615
Payable for refunds due on patient accounts receivable	865,970	2,242,955
Unclaimed property	328,670	346,764
Payable for supplies	597,867	595,334
Payable for capital assets	2,597,999	289,930
Payable for federal income tax	1,438,020	-
Payable for deferred surgery revenues	202,861	-
Other	<u>689,760</u>	<u>1,924,485</u>
Total accounts payable and accrued liabilities	<u>\$19,091,881</u>	<u>\$19,958,765</u>
Accounts payable and accrued liabilities-Nursing Homes	<u>\$ 6,377,841</u>	<u>\$ -</u>

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

**NOTE 3 - ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE, AND DEFERRED
OUTFLOWS AND INFLOW OF RESOURCES - Continued**

Deferred inflows of resources at September 30, consisted of:

	<u>2017</u>	<u>2016</u>
Property taxes under time restrictions	\$2,084,903	\$3,160,528
Pension related	1,192,483	819,733
Other	<u>850,000</u>	<u>1,105,000</u>
Total deferred inflows of resources	<u>\$4,127,386</u>	<u>\$5,085,261</u>

Deferred outflows of resources at September 30, consisted of:

	<u>2017</u>	<u>2016</u>
Accumulated fair value of interest rate swap	\$ 684,827	\$1,237,011
Pension related	1,841,113	3,076,905
Goodwill (net of accumulated amortization of \$422,500)	<u>2,102,500</u>	<u>2,356,000</u>
Total deferred outflows of resources	<u>\$4,628,440</u>	<u>\$6,669,916</u>

NOTE 4 - LEASE OBLIGATION

During 2007, the District sold its rehabilitation hospital building to FGG Midland Rehab Hospital, LLC. As a part of the sale agreement to FGG, the District entered into a sublease agreement with Allegiance Health Center of Midland. The District agreed to guarantee the lease payment if Allegiance Health Center defaulted on the sublease for any reason. During 2013, Allegiance exited the sublease agreement and settled the remaining outstanding debt with the District. The District remains responsible for the annual lease payments of \$974,016 per year through June 30, 2018.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 5 - CAPITAL ASSETS

Capital assets and related accumulated depreciation as of September 30 were as follows:

	Depreciable <u>Life</u>	<u>2017</u>			Ending <u>balance</u>
		<u>Beginning balance</u>	<u>Additions</u>	<u>Retirements and transfers</u>	
Nondepreciable assets					
Land		\$ 7,936,484	\$ -	\$ -	\$ 7,936,484
Construction in-progress		<u>6,594,121</u>	<u>15,685,390</u>	<u>(2,709,075)</u>	<u>19,570,436</u>
Total nondepreciable assets		14,530,605	15,685,390	(2,709,075)	27,506,920
Depreciable assets					
Land improvements	5-10 years	2,462,883	-	-	2,462,883
Buildings	10-40 years	262,191,340	-	(2,280,000)	259,911,340
Furniture, fixtures and equipment	3-20 years	<u>211,080,472</u>	<u>5,648,483</u>	<u>2,709,075</u>	<u>219,438,030</u>
Total depreciable assets		475,734,695	5,648,483	429,075	481,812,253
Less accumulated depreciation					
Land improvements		(1,046,133)	(26,569)	-	(1,072,702)
Buildings		(101,559,645)	(10,280,833)	85,500	(111,754,978)
Furniture, fixtures and equipment		<u>(151,209,730)</u>	<u>(12,887,372)</u>	<u>-</u>	<u>(164,097,102)</u>
Total accumulated depreciation		(253,815,508)	(23,194,774)	85,500	(276,924,782)
Depreciable assets, net		<u>221,919,187</u>	<u>(17,546,291)</u>	<u>514,575</u>	<u>204,887,471</u>
Capital assets, net		<u>\$ 236,449,792</u>	<u>\$ (1,860,901)</u>	<u>\$(2,194,500)</u>	<u>\$ 232,394,391</u>

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 5 - CAPITAL ASSETS - Continued

	Depreciable Life	2016			Ending balance
		Beginning balance	Additions	Retirements and transfers	
Nondepreciable assets					
Land		\$ 7,936,484	\$ -	\$ -	\$ 7,936,484
Construction in-progress		<u>5,021,469</u>	<u>4,061,027</u>	<u>(2,488,375)</u>	<u>6,594,121</u>
Total nondepreciable assets		12,957,953	4,061,027	(2,488,375)	14,530,605
Depreciable assets					
Land improvements	5-10 years	2,462,883	-	-	2,462,883
Buildings	10-40 years	259,911,340	2,280,000	-	262,191,340
Furniture, fixtures and equipment	3-20 years	<u>207,160,164</u>	<u>7,612,236</u>	<u>(3,691,928)</u>	<u>211,080,472</u>
Total depreciable assets		469,534,387	9,892,236	(3,691,928)	475,734,695
Less accumulated depreciation					
Land improvements		(1,021,585)	(24,548)	-	(1,046,133)
Buildings		(92,393,119)	(9,166,527)	-	(101,559,646)
Furniture, fixtures and equipment		<u>(144,874,168)</u>	<u>(12,254,004)</u>	<u>5,918,442</u>	<u>(151,209,730)</u>
Total accumulated depreciation		(238,288,872)	(21,445,079)	5,918,442	(253,815,509)
Depreciable assets, net		<u>231,245,515</u>	<u>(11,552,843)</u>	<u>2,226,514</u>	<u>221,919,186</u>
Capital assets, net		<u>\$ 244,203,468</u>	<u>\$ (7,491,816)</u>	<u>\$ (261,861)</u>	<u>\$ 236,449,791</u>

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 6 - LONG-TERM DEBT AND OTHER LIABILITIES

The following is a summary of long-term debt and other liabilities as of September 30:

	2017				Amount due within one year
	Beginning balance	Additions	Reductions	Ending balance	
Notes payable	\$72,747,805	\$20,500,000	\$(21,414,717)	\$71,833,088	\$8,064,298
Capital lease obligations	35,249	-	(23,260)	11,989	11,989
Self-funded insurance, long-term (See Note 8)	<u>1,327,010</u>	<u>-</u>	<u>(107,362)</u>	<u>1,219,648</u>	<u>-</u>
Long-term debt and Other liabilities	<u>\$74,110,064</u>	<u>\$20,500,000</u>	<u>\$(21,545,338)</u>	<u>\$73,064,725</u>	<u>\$8,076,287</u>
	2016				
	Beginning balance	Additions	Reductions	Ending balance	Amount due within one year
Notes payable	\$38,660,808	\$48,508,000	\$(14,421,003)	\$72,747,805	\$15,218,536
Capital lease obligations	57,019	-	(21,770)	35,249	23,141
Self-funded insurance, long-term (See Note 8)	<u>1,411,390</u>	<u>-</u>	<u>(84,380)</u>	<u>1,327,010</u>	<u>-</u>
Long-term debt and other liabilities	<u>\$40,129,217</u>	<u>\$48,508,000</u>	<u>\$(14,527,153)</u>	<u>\$74,110,064</u>	<u>\$15,241,677</u>

Notes Payable

In 2012, the District entered into a Hospital Revenue Note, Series 2012 (2012 Note) in the amount of \$10,465,000. The note is due in annual installments starting in 2013 through 2016, in amounts ranging from \$1,330,000 to \$3,080,000. The 2012 Note has a fixed interest rate of 2.36%. The 2012 Note proceeds were used to refund the District's 1997 Bonds.

The Series 2012 Note is collateralized by the gross revenues of the District (excluding tax revenues and contributions). In accordance with the provisions of the indenture agreement, accounts were established with the trustee to pay obligations created by the Note. In addition, the indenture contains certain restrictive covenants, which, among other things, restrict the issuance of debt, the granting of liens and the disposition of assets by the District. The District has also pledged to maintain rates sufficient for available revenues, as defined, to be greater than or equal to 110% of the average annual debt service requirements, as defined.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 6 - LONG-TERM DEBT AND OTHER LIABILITIES - Continued

In fiscal year 2002, the District entered into a note payable with an original principal amount of \$20,000,000. The note is payable in annual principal installments ranging from \$296,653 to \$3,026,066, with a final maturity in May 21, 2021. Interest is due monthly at a rate equal to 67% of the London Interbank Offering Rate (LIBOR) plus 1.3 percent. The rate at September 30, 2017 and 2016 was 1.6506% and 2.36%, respectively. Included in non-current cash and investments restricted was approximately \$1,500,000 at September 30, 2017 and 2016, respectively, of restricted cash as required under the debt agreement. The note is secured by the real property purchased with the note proceeds.

During 2008, the District entered into a note payable with Prosperity Bank (formerly American State Bank), and during 2013, the agreement was modified to reduce the interest rate to 3.99%. Interest and principal is due in monthly payments of \$73,472 through July 17, 2037. The note is secured by the Medical Office Building.

During 2009, the District also entered into a note payable with Prosperity Bank (formerly American State Bank) and during 2013, the agreement was modified to reduce the interest rate to 3.99%. Interest and principal is due in monthly payments of \$5,702 through July 17, 2037. The note is secured by the Medical Office Building.

During 2014, the District obtained a line of credit for up to \$10 million. The line of credit is secured by certificates of deposit and bears interest at a rate not to exceed the certificate of deposit earning rate plus 2.6% (currently approximately 3%). The District borrowed the full amount during fiscal year 2014. Interest is due monthly and the outstanding principal is due December 14, 2016.

During 2016, the District entered into a note payable with Prosperity Bank for a total of \$35,508,000. The proceeds from this note were used for the purchase of an additional 25 percent of the outstanding interest of outpatient diagnostic imaging services and the acquisition of the Imaging Center and Imaging Center Practice. The note bears interest at a rate of 3.49%. Interest and principal is due in quarterly payments of \$1,433,115 through January 29, 2021. The note is secured by net revenues of the District.

During 2016, the District entered into limited revenue bonds series for \$3,000,000 "Midland County Hospital District Hospital Mortgage Limited Revenue Bond, Series 2016A" with Bank of New York Mellon Trust Company, N.A. (trustee) and Prosperity Bank. The proceeds from the revenue bonds are to be used for hospital project costs for constructing, remodeling, renovating, improving, furnishing and equipping a neonatal intensive care unit; pharmacy, sterile processing and hospital materials management departments and the acquisition and implementation of an electronic medical records system. (The total aggregate principal not to exceed \$40,000,000); of which, \$3,000,000 has been drawn down for the sterile processing project costs as of September 30, 2016. The amortization schedule for the 2016A project is for principal payments to begin in May 2023 in repayment amounts ranging from \$50,000 to \$250,000 and interest payments being made quarterly on April 1, July 1, October 1 and January 1, at rates at 1.9% through February 24, 2021. Beginning on February 25, 2021, and each subsequent anniversary date of the fifth year, the interest rate shall reset to a fixed rate equal to the applicable 5 year CMT plus+ .75%.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 6 - LONG-TERM DEBT AND OTHER LIABILITIES - Continued

During 2017 the District entered into limited revenue bonds series for \$15,500,000, “Midland County Hospital District Hospital Mortgage Limited Revenue Bond, Series 2017” with Bank of New York Mellon Trust Company, N.A. (trustee) and Prosperity Bank. The proceeds from the revenue bonds are to be used for hospital project costs for the acquisition and implementation of an electronic medical records system. (The total aggregate principal not to exceed \$40,000,000); of which, \$15,500,000 has been drawn down for an electronic medical records system. The amortization schedule for the 2017 project is for principal payments to begin in May 2026 in repayment amounts ranging from \$1,410,000 to \$3,815,000 and interest payments being made quarterly on April 1, July 1, October 1 and January 1, at rates at 2.4% through February 24, 2021. Beginning on February 25, 2021, and each subsequent anniversary date of the fifth year, the interest rate shall reset to a fixed rate equal to the applicable 5 year CMT plus+ .75%.

General Obligation Bonds

During 2009, the District issued \$16,615,000, Series A 2009 and \$98,380,000 Series B 2009 Limited Tax Bonds. The proceeds from these bonds were used to construct and equip a new nine floor patient tower.

The following is a summary of the 2009 Series bonds and related liabilities as of September 30:

	2017				Amount due within one year
	Beginning balance	Additions	Reductions	Ending balance	
Series A 2009	\$ 2,735,000	\$ -	\$(2,735,000)	\$ -	\$ -
Series B 2009	98,380,000	-	-	98,380,000	2,860,000
Series B 2009 (Babs)	1,007,250	-	(1,007,250)	-	-
Original issue premium	19,208	-	(19,208)	-	-
	<u>\$102,141,458</u>	<u>\$ -</u>	<u>\$(3,761,458)</u>	<u>\$98,380,000</u>	<u>\$2,860,000</u>
	2016				
	Beginning balance	Additions	Reductions	Ending balance	Amount due within one year
Series A 2009	\$ 5,340,000	\$ -	\$(2,605,000)	\$ 2,735,000	\$ 2,735,000
Series B 2009	98,380,000	-	-	98,380,000	-
Series B 2009 (Babs)	-	1,007,250	-	1,007,250	(1,007,250)
Original issue premium	70,970	-	(51,762)	19,208	-
	<u>\$103,790,970</u>	<u>\$1,007,250</u>	<u>\$(2,656,762)</u>	<u>\$102,141,458</u>	<u>\$ 1,727,750</u>

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 6 - LONG-TERM DEBT AND OTHER LIABILITIES - Continued

The Series A 2009 bonds are tax exempt and are dated as of August 1, 2009 with scheduled maturities between May 15, 2013 and May 15, 2017, with annual principal and sinking fund payments ranging from \$2,065,000 to \$2,735,000. Interest payments began on May 15, 2010, with interest rates ranging from 3.0% to 5.0%. The 2009 Series B bonds were issued as taxable Build America Bonds and are dated as of August 1, 2009 with scheduled maturity dates between May 15, 2018 and May 15, 2022 in amounts ranging from \$2,860,000 to \$3,305,000. The Series B serial bonds carry interest rates ranging from 5.255% to 5.855%. The Series B 2009 bonds also include two term bonds maturing May 15, 2029 and May 15, 2039, with principal of \$27,295,000 and \$55,715,000, respectively. The term bonds require mandatory redemptions beginning May 15, 2023 through May 15, 2039 and interest rates of 6.34% and 6.44%. The 2009 Series B Build America Bonds have a tax rebate provision from the federal government effectively reducing the interest rate of the bonds by 1.54% from the stated rate. During 2013 and 2014, the tax rebate provision was reduced by 8.7% due to federally mandated sequestration adjustments. The District received rebates in the amount of \$1,007,250 and \$3,021,750 for the years ending September 30, 2017 and 2016, respectively.

The Build America Bonds credit was expected to be received by November 15, 2016 was issued and received before September 30, 2016. This credit of approximately \$1 million was recorded in the investments designated for bond indenture line on the Statements of Net Position. This amount will be utilized on payments due in fiscal year 2017. Both the Series A and Series B bonds constitute direct obligations of the District payable from the levy and collection of an annual ad valorem tax levied by the District.

The maturities of notes payable as of September 30, 2017, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
Year ended September 30:			
2018	\$ 8,064,299	\$ 2,306,659	\$10,370,957
2019	8,104,442	2,060,259	10,164,701
2020	8,483,596	1,724,653	10,208,248
2021	10,595,826	1,348,615	11,944,441
2022	6,075,040	1,060,121	7,135,161
2023 to 2027	7,848,451	4,042,056	11,890,507
2028 to 2032	17,056,041	2,257,353	19,313,394
2033 to 2037	5,130,393	559,749	5,690,142
2038 to 2039	<u>475,000</u>	<u>19,518</u>	<u>494,518</u>
	<u>\$71,833,088</u>	<u>\$15,378,983</u>	<u>\$87,212,069</u>

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 6 - LONG-TERM DEBT AND OTHER LIABILITIES - Continued

The maturities of the general obligation bond issues as of September 30, 2017 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
Year ended September 30:			
2018	\$ 2,860,000	\$ 4,169,806	\$ 7,029,806
2019	2,960,000	4,068,328	7,028,328
2020	3,065,000	3,961,303	7,026,303
2021	3,180,000	3,845,308	7,025,308
2022	3,305,000	3,721,741	7,026,741
2023 to 2037	18,680,000	16,421,836	35,101,836
2028 to 2032	22,955,000	12,064,020	35,019,020
2033 to 2037	28,290,000	6,638,096	34,928,096
2038 to 2039	<u>13,085,000</u>	<u>859,439</u>	<u>13,944,439</u>
	<u>\$98,380,000</u>	<u>\$55,749,877</u>	<u>\$154,129,877</u>

NOTE 7 - INTEREST RATE SWAP

Objective of the Interest Rate Swap

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations and to lower its borrowing costs when compared against fixed-rate debt at the time of issuance, the District entered into an interest rate swap agreement for its 2002 long-term note payable to bank. The intention of the swap is to effectively change the District's variable interest rate on this note to a synthetic fixed rate of 5.02%.

Terms

The District entered an interest rate swap agreement on January 1, 2006 which terminates May 1, 2021. The agreement provides for the District to receive interest from the counterparty at the 67% of the London Interbank Offering Rate (LIBOR) plus 1.3% and to pay interest to the counterparty at a fixed rate of 5.02% on notional amounts of \$13,003,185 and \$13,176,379 at September 30, 2017 and 2016, respectively. The notional amount of the swap amortizes over time. Under the agreement, the District pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 7 - INTEREST RATE SWAP - Continued

Fair Value

As of September 30, 2017 and 2016, the agreement had a negative fair value of \$684,827 and \$1,237,011, respectively, calculated using the par-value method, i.e., the fixed rate on the swap was compared with the current fixed rates that could be achieved in the marketplace should the swap be unwound. The fixed-rate component was valued by discounting the fixed-rate cash flows using the current yield to maturity of a comparable bond. The variable-rate component was assumed to be at par value because the interest rate resets to the market rate at every reset date. The fair value was then calculated by subtracting the estimated market value of the fixed component from the established market value of the variable component. The fair value of the agreement is recognized as a deferred outflow in the District's statement of net position. As of October 1, 2011, the swap is being accounted for as an effective hedging instrument and the offsetting balance is reflected as a deferred outflow on the District's statements of net position. The change in fair value of the swap of \$552,184 and \$272,878 for the years ended September 30, 2017 and 2016, respectively, is shown as an adjustment to the carrying amount of the related deferred outflow on the statements of net position.

Credit Risk

As of September 30, 2017 and 2016, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the District would be exposed to credit risk on the amount of the derivative's fair value. The swap's counterparty was rated A by Standard and Poor's as of September 30, 2017.

Termination Risk

The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap has a negative fair value at the time of termination, the District would be liable to the counterparty for a payment equal to the swap's then fair value.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 7 - INTEREST RATE SWAP - Continued

Swap Payments and Associated Debt

Future debt service requirements of the variable-rate note and the future net swap payments as of September 30, 2017, are shown below. These payments assume that current interest rates remain the same throughout the term of the agreements. As rates vary, variable-rate interest payments and net swap payments will vary.

	Variable Rate Note		Interest Rate Swap, Net	Total
	Principal	Interest		
Year ended September 30:				
2018	\$ 2,795,816	\$216,929	\$326,379	\$ 3,339,124
2019	2,644,923	160,719	246,687	3,052,329
2020	2,829,083	220,843	44,797	3,094,723
2021	4,733,363	100,594	(11,301)	4,822,656
	<u>\$13,003,185</u>	<u>\$699,085</u>	<u>\$606,562</u>	<u>\$14,308,832</u>

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Operating Leases

Rental expenditures for operating leases with minimum rentals under cancelable operating leases as of September 30, 2017 and 2016 were \$5,330,140 and \$4,707,243, respectively.

Self-insurance

The District is self-insured for certain professional and general liability risks. The carrying amount of accrued malpractice claims is discounted using a rate of 0.08% and 0.25% as of September 30, 2017 and 2016, respectively. A revocable trust has been established and actuarially-determined amounts have been funded with the trust to cover the estimated eventual costs of self-insured claims. These accounts are reflected in board-designated funds in the accompanying statements of net position. The District's maximum liability as a governmental unit under the Texas Tort Claims Act is \$100,000 per individual and \$300,000 for each occurrence. The long-term portion of this accrual is included in long-term debt and other liabilities on the statement of net position.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 8 - COMMITMENTS AND CONTINGENCIES - Continued

The District began self-insuring its exposure to workers' compensation losses as of May 1, 1989. The program pays the workers' compensation losses and allocated loss adjustment expenses incurred by the employees of the District. The District pays unallocated loss adjustment expenses from operating revenues, not the program. The District currently carries specific excess insurance of \$400,000 per claim.

The District is self-insured for group health insurance. Commercial stop-loss is purchased for claims in excess of \$300,000. A provision is accrued for self-insured health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims, and other economic and social factors.

It is reasonably possible that the District's estimates will change by a material amount in the near term. Activity in the District's self-insured risk areas during 2017 and 2016 are presented in the following table:

	2017				
	Beginning balance	Current year estimates of claims	Claims payments	Balance at end of fiscal year	Amount due within one year
Hospital professional and general liability	\$ 472,599	\$ 54,691	\$ (47,761)	\$ 479,529	\$ 106,245
Workers compensation liability	2,294,376	414,777	(420,869)	2,288,284	1,441,919
Group health liability	<u>1,278,202</u>	<u>9,590,520</u>	<u>(9,152,887)</u>	<u>1,715,835</u>	<u>1,715,835</u>
	<u>\$4,045,177</u>	<u>\$10,059,988</u>	<u>\$(9,621,517)</u>	<u>\$4,483,648</u>	<u>\$3,263,999</u>
	2016				
	Beginning balance	Current year estimates of claims	Claims payments	Balance at end of fiscal year	Amount due within one year
Hospital professional and general liability	\$ 500,803	\$ 89,130	\$ (117,334)	\$ 472,599	\$ 136,702
Workers compensation liability	2,181,864	428,908	(316,396)	2,294,376	1,303,263
Group health liability	<u>794,755</u>	<u>10,250,169</u>	<u>(9,766,722)</u>	<u>1,278,202</u>	<u>1,278,202</u>
	<u>\$3,477,422</u>	<u>\$10,768,207</u>	<u>\$(10,200,452)</u>	<u>\$4,045,177</u>	<u>\$2,718,167</u>

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 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 claim. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 8 - COMMITMENTS AND CONTINGENCIES - Continued

Employee Benefits

In 2005, the District began a defined contribution pension plan known as a Section 401(a) Plan. This plan covers selected managerial employees. The plan is administered by a third-party administrator appointed by the District's board. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the District's governing body. The employees do not contribute to the plan. During both the years ending September 30, 2017 and 2016, the District contributed \$5,828 to the plan, respectively, and there are no amounts outstanding.

In 2005, the District also began a defined contribution pension plan known as a Section 403(b) Plan. This plan covers substantially all employees meeting age and service requirements. The plan is administered by a third-party administrator appointed by the District board. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the District's governing body. Employee contributions are discretionary. Based on years of service, the District matches employee contributions on an increasing scale starting at 50% of the first 6% increasing to 100% of the first 7.5%. A member is fully vested in the employer match after 1 year of service. Part-time employees are also allowed to contribute to the plan; however, the District does not match any contributions made by those employees. As of September 30, 2017 and 2016, the District has outstanding liabilities of \$500,971 and \$489,203 for the plan that are reported in accrued payroll on the statement of net position.

	<u>2017</u>	<u>2016</u>
Participant salaries	\$57,228,559	\$52,704,499
Contributions by employees	\$ 4,260,421	\$ 4,012,804
Percent of participant salaries	7.44%	7.61%
Contributions by the District	\$ 2,544,145	\$ 2,306,624
Percent of participant salaries	4.45%	4.38%

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 9 - DEFINED BENEFIT PENSION PLAN

General information about the Plan

Plan Description. The District sponsors the Midland Memorial Hospital Defined Benefit Retirement Savings Plan (the Plan), a single-employer defined benefit pension plan for eligible employees. The Plan provides retirement, death and disability benefits. Benefits ceased to accrue effective December 31, 2004 for all participants who had not both attained age 50 and completed at least five years of benefit accrual services as of December 31, 2004. Participants who had both attained age 50 and completed five years of benefit accrual services as of December 31, 2005, through December 31, 2009 were given the choice of having a continuation of benefit accruals or opting not to have continuing benefit accruals. Amendments to the plan are made only with the authority of the District's board of directors. The plan does not issue a stand-alone financial report. Eligible participants who opted to have continuing benefit accruals and less than 20 years of benefit accrual service are required to make employee contributions of 4% of eligible salary; employees with years of benefit accrual service of 20 to 29 years are required to make employee contributions of 3% of eligible salary; and employees with 30 years or more of benefit accrual service are required to make employee contributions of 2% of eligible salary. Effective December 31, 2005, no new participants were eligible to enter the Plan. During 2010, a Voluntary Enhanced Retirement Program (VERP) was offered to certain participants during the period July 12, 2010 to August 26, 2010. Effective September 3, 2010, remaining benefit accruals were frozen and a benefit enhancement in connection with the benefit freeze was offered to certain participants and all employee contributions ceased. In May 2013, the District offered a buy-out option to participants in the frozen benefit plan. Out of 376 participants, 112 opted for the final lump sum payments, in the total amount of \$1,892,033, at an interest rate of 9.5%. In March 2013, the District offered voluntary enhanced retirement program (VERP), in which 80 participants received a lump sum payout of \$4 million. The plan administrator for "Midland Memorial Hospital Defined Benefit Retirement Savings Plan" is Transamerica Retirement Solutions (formerly, Diversified Investment Advisors), Riverside Center, 275 Grove Street, Suite 2-300, Newton, MA 02466.

Benefits provided. The Plan provides retirement, disability, and death benefits. Retirement benefits for general employees are calculated as the sum of 0.75% of the employee's average monthly compensation times the employee's years of service and 0.65% of the employee's highest 5 years of the last 10 years average monthly compensation in excess of \$400 times up to 30 years of the employee's years of service. Benefits for a limited group of management employees are calculated as 4% of the employee's final 3-year average monthly compensation times the employee's years of service up to 15 years.

Employees with 5 years of continuous service are eligible to retire at age 55 at a reduced rate and are eligible for full benefits at age 65. General employees are eligible for disability benefits that are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are equivalent to the present value of accrued normal retirement benefit. An employee who leaves District service may withdraw his or her contributions, plus any accumulated interest.

Benefit terms for the select group of management provides for an annual cost-of-living adjustment based on the lower of 3% or the consumer price index for urban consumers at September of each year.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 9 - DEFINED BENEFIT PENSION PLAN - Continued

Employees covered by benefit terms. At September 30, 2017, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits	320
Inactive employees entitled to but not yet receiving benefits	367
Active employees	<u>235</u>
	<u>922</u>

The plan was closed to new entrants effective December 31, 2005.

Contributions. The board of directors of the District has sole authority to establish and amend the contribution requirements of the Plan. The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance any unfunded accrued liability. The District has established an annual contribution of \$2,500,000. As of 2010, no contributions by employees are required under the Plan.

Net Pension Liability

The District's net pension liability was measured as of September 30, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2017 updated through the measurement date of September 30, 2017.

Actuarial assumptions. The total pension liability in the September 30, 2017 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Cost of living benefit increases	For select management only - CPI increase not to exceed 3%
Inflation	3%
Investment rate of return	8%, net of pension plan administrative expense
Actuarial cost method	Entry age normal cost method
Asset valuation method	Plan invested assets are reported at fair value

Mortality rates used were the updated static mortality tables in accordance with IRS Regulation 1.430(h)(3)-1 which is based on the MP-2017 Mortality Table with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the January 1, 2017 valuation were based on results of an actuarial experience study for the period January 1, 2011 to December 31, 2016.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 9 - DEFINED BENEFIT PENSION PLAN - Continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns net of pension plan investment expense) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage.

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the District's Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. The target allocation as of September 30, 2017, and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Equity	35%	13.95%
Fixed	28%	6.41%
International	25%	11.57%
Real estate and other	<u>12%</u>	<u>(4.35)%</u>
Total	<u>100%</u>	<u>8.27%</u>

Rate of return. The annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 8.27%, 4.2%, and 4.3% for the years ended September 30, 2017, 2016, and 2015, respectively. The money-weighted rate of return expresses investment performance, net of investment expense, and is adjusted for the changing amounts actually invested.

Discount rate. The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at a rate of \$2,500,000 annually. 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.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 9 - DEFINED BENEFIT PENSION PLAN - Continued

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net Pension Liability <u>(a) - (b)</u>
Balances at September 30, 2016	\$62,526,524	\$36,180,424	\$26,346,100
Changes for the year:			
Interest	4,840,667	-	4,840,667
Differences between expected and actual experience	94,028	-	94,028
Changes of assumptions	(1,025,940)	-	(1,025,940)
Contributions - employer	-	2,500,000	(2,500,000)
Net investment income	-	3,224,620	(3,224,620)
Benefits payments, including refunds of employee contributions	(3,801,415)	(3,801,415)	-
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	<u>107,340</u>	<u>1,923,205</u>	<u>(1,815,865)</u>
Balances at September 30, 2017	<u>\$62,633,864</u>	<u>\$38,103,629</u>	<u>\$24,530,235</u>

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 9 - DEFINED BENEFIT PENSION PLAN - Continued

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability <u>(a)</u>	Plan Fiduciary Net Position <u>(b)</u>	Net Pension Liability <u>(a) - (b)</u>
Balances at September 30, 2015	\$61,885,812	\$33,976,301	\$27,909,511
Changes for the year:			
Interest	4,803,747	-	4,803,747
Differences between expected and actual experience	(424,609)	-	(424,609)
Changes of assumptions	(111,971)	-	(111,971)
Contributions - employer	-	2,500,000	(2,500,000)
Net investment income	-	3,330,578	(3,330,578)
Benefits payments, including refunds of employee contributions	(3,626,455)	(3,626,455)	-
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	<u>640,712</u>	<u>2,204,123</u>	<u>(1,563,411)</u>
Balances at September 30, 2016	<u>\$62,526,524</u>	<u>\$36,180,424</u>	<u>\$26,346,100</u>

The plans' fiduciary net position as a percentage of total pension liability was 60.84% and 57.86% as of September 30, 2017 and 2016, respectively.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 9 - DEFINED BENEFIT PENSION PLAN - Continued

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the District, calculated using the discount rate of 8%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	<u>1% Decrease (7%)</u>	<u>Current Discount Rate (8%)</u>	<u>1% Increase (9%)</u>
District's net pension liability	\$(19,280,988)	\$(24,530,235)	\$(30,680,386)

Plan Fiduciary Net Position

	<u>September 30, 2017</u>	<u>September 30, 2016</u>
Assets		
Cash	\$ 625,010	\$ -
Contributions receivable	-	625,000
Investments		
Equity	22,977,358	19,447,612
Fixed income	10,646,780	10,605,818
Real estate	1,870,639	1,743,804
Other	<u>1,983,842</u>	<u>3,758,190</u>
Total investments	<u>37,478,619</u>	<u>35,555,424</u>
Total assets	<u>\$38,103,629</u>	<u>\$36,180,424</u>

Investments consist of mutual funds that are stated at fair value determined by the closing exchange price at the statement of fiduciary net position date.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 9 - DEFINED BENEFIT PENSION PLAN - Continued

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

For each of the years ended September 30, 2017 and 2016, the District recognized pension expense of approximately \$4.5 million and \$6.3 million, respectively. At September 30, 2017 and 2016, the District reported deferred outflows and inflows of resources related to pensions from the following sources:

2017	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 40,905	\$ -
Changes of assumptions	-	446,313
Net difference between projected and actual earnings on plan investments	<u>1,800,208</u>	<u>746,170</u>
Contributions subsequent to the measurement date	<u>\$1,841,113</u>	<u>\$1,192,483</u>
2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$214,923
Changes of assumptions	352,835	55,985
Net difference between projected and actual earnings on plan investments	<u>2,724,070</u>	<u>548,825</u>
Contributions subsequent to the measurement date	<u>\$3,076,905</u>	<u>\$819,733</u>

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30:

2018	\$ 297,611
2019	655,501
2020	(220,845)
2021	(83,637)

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 9 - DEFINED BENEFIT PENSION PLAN - Continued

Payable to the Pension Plan

At September 30, 2016, the District reported a payable of \$625,000 for the outstanding amount of contributions to the pension plan required for the year ended September 30, 2016, which is included in accounts payable on the statements of net position. For the period ending September 30, 2017, there was no payable recorded.

NOTE 10 - DEPOSITS AND INVESTMENTS

State law requires collateralization of all deposits with a combination of federal depository insurance and certain other qualified investments having an aggregate value at least equal to the amount of the deposits. At September 30, 2017 and 2016, the District's bank balances of \$56,635,720 and \$42,919,365, respectively, were fully insured or collateralized by securities held by the pledging financial institution's agent in the District's name.

The District maintained the following deposit and investment balances:

	2017	2016
Carrying value:		
Deposits	\$44,901,698	\$38,526,844
Deposits-Nursing Homes	1,475,914	-
Investments	9,348,728	3,973,188
	\$55,726,340	\$42,500,032

These amounts are included in the following captions on the statements of net position:

	2017	2016
Cash and cash equivalents	\$32,227,239	\$25,907,939
Cash and cash equivalents-Nursing Homes	1,475,914	-
Short-term investments	7,921,865	7,976,576
Self-funded insurance funds, current	952,610	1,129,818
Investments designated for bond indenture	2,395,107	3,973,188
Non-current cash and investments:		
Restricted under debt agreement	2,464,160	2,460,314
Self-funded insurance funds	8,289,445	1,052,197
	\$55,726,340	\$42,500,032

The District's investments consist solely of money market mutual funds at September 30, 2017 and 2016. Money market mutual funds are considered level 1 investments according to the GASB 72 fair value hierarchy. The fair value hierarchy defines level 1 investments as investments that have quoted prices in active markets for identical assets or liabilities.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 10 - DEPOSITS AND INVESTMENTS - Continued

The Foundation maintained deposit bank balances of \$525,595 and \$248,444, respectively, with reported book balances of \$504,319 and \$240,717, respectively, at September 30, 2017 and 2016, which were fully insured or collateralized by securities held in the District's name.

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the District limits this risk by investing primarily in money market funds with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk-Investments

The District's investment policy requires that all funds (except cash and amounts held in a trust fund) will be invested directly in U.S. Government Securities or no-load money market or mutual funds with a maximum duration of three years. The District's money market mutual funds had investment ratings of AAAm by S&P.

Custodial Credit Risk – Deposits

For deposits, custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy requires available cash over \$250,000 in a bank will be collateralized by the bank pledging U.S. Securities (securities are obligations issued or guaranteed by U.S. government agencies, authorities, instrumentalities or sponsored enterprises) or providing a repurchase agreement collateralized by obligations of the United States or its agencies and instrumentalities.

Concentration of Credit Risk

The District places no limit on the amount that may be invested in any one issuer. At September 30, 2017 and 2016, the District's investment in the Dreyfus Institutional Cash Advantage Fund accounted for 100% of its total investments.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 11 - FOUNDATION INVESTMENTS

Investments at September 30, 2017 and 2016 are comprised of the following with maturities of less than one year:

	Fair Value	
	2017	2016
Money market and mutual funds	\$29,746,095	\$25,728,641

The following table summarizes the investment return and its classification in the statements of revenues, expenses and changes in net position for the years ended September 30, 2017 and 2016:

	2017		2016	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Investment income	\$ (24,163)	\$ 645,545	\$ 9,716	\$ 664,075
Net appreciation (depreciation) in fair value of investments	<u>(37,068)</u>	<u>2,359,409</u>	<u>(366,484)</u>	<u>1,496,872</u>
	<u>\$ (61,231)</u>	<u>\$3,004,863</u>	<u>\$(356,768)</u>	<u>\$2,160,947</u>

The Foundation recognized unrealized gains of \$2,322,341 and \$1,130,388, which are reported in investment income for the years ending September 30, 2017 and 2016, respectively.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 12 - HEALTH CARE REFORM

The Patient Protection and Affordable Care Act (PPACA) is substantially reforming the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation established health insurance exchanges, which provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Texas has not expanded the Medicaid program, which may result in revenues from newly covered individuals not offsetting the Medical Center's reduced revenue from other Medicare/Medicaid programs. Texas has participated in the 1115 Waiver program for about 7 years allowing hospitals to maintain federal matching revenues associated with Medicaid and other underfunded patients. In December 2017, a five year renewal of the 1115 Waiver program was approved.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible it will have a negative impact on the Medical Center's net patient service revenue. In addition, it is possible the Medical Center will experience payment delays and other operational challenges during PPACA's implementation.

NOTE 13 - FOUNDATION

The Foundation is organized to foster and support the activities and purposes of the healthcare operations division of the District. The board of trustees of the Foundation manages the healthcare operations division under an amended agreement with the District, whereby the healthcare operations division paid an annual management fee to the Foundation of \$1,100,000 and \$850,000 for the years ended September 30, 2017 and 2016, respectively.

The healthcare operations division is the primary beneficiary of grants from the Foundation. If the Foundation or its donors have placed restrictions on the grants, they are expended by the healthcare operations division in accordance with these restrictions. The healthcare operations division records these grants at the time they are authorized by the Foundation. During the years ended September 30, 2017 and 2016, the Foundation contributed approximately \$2,145,084 and \$2,055,000, respectively, to the District for capital projects and other operating purposes.

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 13 - FOUNDATION - Continued

The following table summarizes the restricted net position held by the Foundation:

	2017	2016
Restricted – expendable		
Assets available for capital purchases	\$ 3,470,247	\$ 2,331,691
Assets available to fund specific hospital operations	5,503,066	3,425,813
Assets available for education and training	<u>1,637,512</u>	<u>1,220,825</u>
	<u>10,610,825</u>	<u>6,978,329</u>
Restricted – nonexpendable		
Income available for capital acquisitions	11,397,594	10,954,821
Income available to fund specific hospital operations	35,958,857	21,885,720
Income available for education and training	<u>510,720</u>	<u>496,735</u>
	<u>\$47,867,171</u>	<u>\$33,337,276</u>

NOTE 14 - BENEFICIAL INTERESTS IN TRUSTS

The Foundation is the beneficiary of multiple charitable trusts. Under some of these trusts, the Foundation will receive a specified percentage of the trust assets upon the death of the beneficiaries of the trusts. The proceeds for these trusts may be available for unrestricted purposes or for restricted purposes specified by the donors. The Foundation is also the beneficiary of perpetual trusts administered by an outside party. Under the terms of these perpetual trusts, the Foundation has the irrevocable right to receive the income earned on the assets in perpetuity, but never receives the assets held in trust.

A summary of beneficial interests in trusts include:

	2017	2016
Temporarily restricted		
Assets available for unrestricted use	\$ 225,063	\$ 228,084
Permanently restricted for endowments		
Income available for capital acquisitions	333,721	336,973
Income available for nursing education	<u>25,744,821</u>	<u>11,983,044</u>
Total	<u>\$26,303,605</u>	<u>\$12,548,101</u>

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 15 - COMBINING COMPONENT UNIT INFORMATION

The following tables include combining statements of net position information for the District and its blended component units as of September 30, 2017 and 2016.

	2017				2016			
	Midland County Hospital District	501(a) Entities	Nursing Homes	The District Combined	Midland County Hospital District	501(a) Entities	Nursing Homes	The District Combined
Assets and Deferred Outflows and Resources								
Current assets:								
Cash and cash equivalents	\$ 20,029,531	\$1,372,453	\$ -	\$ 21,401,984	\$ 14,121,694	\$ 862,319	\$ -	\$ 14,984,013
Cash and cash equivalents-Nursing Homes	-	-	1,475,914	1,475,914	-	-	-	-
Cash designated for other capital projects	10,825,255	-	-	10,825,255	10,923,926	-	-	10,923,926
Short-term investments	7,921,865	-	-	7,921,865	7,976,576	-	-	7,976,576
Tax receivable	845,492	-	-	845,492	660,903	-	-	660,903
Patient accounts receivable, less allowance for doubtful accounts	39,573,155	1,517,371	-	41,090,526	37,827,882	2,035,509	-	39,863,391
Patient accounts receivable-Nursing Homes	-	-	4,901,927	4,901,927	-	-	-	-
Inventories	8,275,496	178,420	-	8,453,916	8,335,329	101,368	-	8,436,697
Prepaid expenses	2,604,627	153,356	-	2,757,983	2,866,639	125,700	-	2,992,339
Other receivables	8,490,988	312,516	-	8,803,504	8,091,443	432,743	-	8,524,186
Amounts due from Medicare and Medicaid	16,198,160	-	-	16,198,160	19,534,361	-	-	19,534,361
Self-funded insurance funds, current	952,610	-	-	952,610	1,129,818	-	-	1,129,818
Investments designated for bond indenture	<u>9,348,729</u>	<u>-</u>	<u>-</u>	<u>9,348,729</u>	<u>3,973,188</u>	<u>-</u>	<u>-</u>	<u>3,973,188</u>
Total current assets	125,065,908	3,534,116	6,377,841	134,977,865	115,441,759	3,557,641	-	118,999,398
Noncurrent cash and investments								
Restricted under debt agreement	2,464,160	-	-	2,464,160	2,460,314	-	-	2,460,314
Self-funded insurance funds	<u>1,335,823</u>	<u>-</u>	<u>-</u>	<u>1,335,823</u>	<u>1,052,198</u>	<u>-</u>	<u>-</u>	<u>1,052,198</u>
Total investments limited as to use	<u>3,799,983</u>	<u>-</u>	<u>-</u>	<u>3,799,983</u>	<u>3,512,512</u>	<u>-</u>	<u>-</u>	<u>3,512,512</u>
Capital assets, net of accumulated depreciation	230,820,593	1,573,798	-	232,394,391	234,345,895	2,103,896	-	236,449,791
Other assets:								
Goodwill and intangibles, net of accumulated amortization	3,362,870	-	-	3,362,870	3,570,867	-	-	3,570,867
Other	<u>12,423,837</u>	<u>7,523</u>	<u>-</u>	<u>12,431,360</u>	<u>11,356,259</u>	<u>7,524</u>	<u>-</u>	<u>11,363,783</u>
Total other assets	<u>15,786,707</u>	<u>7,523</u>	<u>-</u>	<u>15,794,230</u>	<u>14,927,126</u>	<u>7,524</u>	<u>-</u>	<u>14,934,650</u>
Total assets	375,473,191	5,115,437	6,377,841	386,966,469	368,227,292	5,669,059	-	373,896,351
Deferred outflows of resources	<u>4,628,440</u>	<u>-</u>	<u>-</u>	<u>4,628,440</u>	<u>6,669,916</u>	<u>-</u>	<u>-</u>	<u>6,669,916</u>
Total assets and deferred outflows of resources	<u>\$380,101,631</u>	<u>\$5,115,437</u>	<u>\$6,377,841</u>	<u>\$391,594,909</u>	<u>\$374,897,208</u>	<u>\$5,669,059</u>	<u>\$-</u>	<u>\$380,566,267</u>

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 15 - COMBINING COMPONENT UNIT INFORMATION - Continued

	2017				2016			
	Midland County Hospital District	501(a) Entities	Nursing Homes	The District Combined	Midland County Hospital District	501(a) Entities	Nursing Homes	The District Combined
Liabilities and Deferred Inflows of Resources								
Current liabilities:								
Accounts payable and accrued liabilities	\$ 17,025,652	\$ 2,066,228	\$ -	\$ 19,091,881	\$ 17,686,737	\$ 2,272,028	\$ -	\$ 19,958,765
Accounts payable and accrued liabilities-Nursing Homes	-	-	6,377,841	6,377,841	-	-	-	-
Accrued interest payable	1,663,508	-	-	1,663,508	2,007,838	-	-	2,007,838
Accrued payroll	9,241,110	2,729,245	-	11,970,355	8,213,597	1,573,810	-	9,787,407
Accrued self-insurance liabilities	3,263,999	-	-	3,263,999	2,718,167	-	-	2,718,167
Current maturities of general obligation bonds payable	2,860,000	-	-	2,860,000	1,727,750	-	-	1,727,750
Current maturities of long-term debt	<u>8,064,299</u>	<u>11,988</u>	<u>-</u>	<u>8,076,287</u>	<u>15,218,536</u>	<u>23,141</u>	<u>-</u>	<u>15,241,677</u>
Total current liabilities	42,118,568	4,807,462	6,377,841	53,303,871	47,572,625	3,868,979	-	51,441,604
Payable for pension obligation	24,530,235	-	-	24,530,235	26,346,100	-	-	26,346,100
Interest rate swap	684,827	-	-	684,827	1,237,011	-	-	1,237,011
Long-term debt and other liabilities	64,988,438	-	-	64,988,438	58,856,280	12,107	-	58,868,387
General obligation bonds payable	<u>95,520,000</u>	<u>-</u>	<u>-</u>	<u>95,520,000</u>	<u>99,406,458</u>	<u>-</u>	<u>-</u>	<u>99,406,458</u>
Total liabilities	<u>227,842,068</u>	<u>4,807,462</u>	<u>6,377,841</u>	<u>239,027,371</u>	<u>233,418,474</u>	<u>3,881,086</u>	<u>-</u>	<u>237,293,560</u>
Deferred inflows of resources	<u>4,127,386</u>	<u>-</u>	<u>-</u>	<u>4,127,386</u>	<u>5,085,261</u>	<u>-</u>	<u>-</u>	<u>5,085,261</u>
Net position								
Net investment in capital assets	86,402,945	1,561,809	-	87,964,754	101,381,797	2,068,649	-	103,450,446
Restricted - expendable for capital assets	10,825,255	-	-	10,825,255	10,923,926	-	-	10,923,926
Restricted - expendable for debt service	11,812,888	-	-	11,812,888	6,433,502	-	-	6,433,502
Unrestricted	<u>39,091,089</u>	<u>(1,253,834)</u>	<u>-</u>	<u>37,837,255</u>	<u>17,654,248</u>	<u>(280,676)</u>	<u>-</u>	<u>17,373,572</u>
Total net position	<u>148,132,177</u>	<u>307,975</u>	<u>-</u>	<u>148,440,152</u>	<u>136,393,473</u>	<u>1,787,973</u>	<u>-</u>	<u>138,181,446</u>
Total liabilities, deferred inflows of resources and net position	<u>\$380,101,631</u>	<u>\$ 5,115,437</u>	<u>\$6,377,841</u>	<u>\$391,594,909</u>	<u>\$374,897,208</u>	<u>\$5,669,059</u>	<u>\$ -</u>	<u>\$380,566,267</u>

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 15 - COMBINING COMPONENT UNIT INFORMATION - Continued

The following tables include combining statements of revenues, expenses and changes in net position information for the District and its blended component units for the years ended September 30, 2017 and 2016.

	2017				2016			
	Midland County Hospital District	501(a) Entities	Nursing Home	The District Combined	Midland County Hospital District	501(a) Entities	Nursing Home	The District Combined
Revenues:								
Net patient care revenues	\$250,533,455	\$19,602,971	\$ -	\$270,136,426	\$237,339,226	\$20,705,176	\$ -	\$258,044,402
Net patient care revenues-Nursing Homes	-	-	12,973,529	12,973,529	-	-	-	-
Other income	<u>9,324,422</u>	<u>18,790,179</u>	-	<u>28,114,601</u>	<u>8,842,069</u>	<u>13,490,890</u>	-	<u>22,332,959</u>
Total revenues	259,857,877	38,393,150	12,973,529	311,224,556	246,181,295	34,196,066	-	280,377,361
Expenses:								
Salaries and fringe benefits	130,902,754	30,826,554	-	161,729,308	129,659,994	26,509,669	-	156,169,663
Supplies	46,603,862	2,659,085	-	49,262,947	47,186,667	2,442,111	-	49,628,778
Other	39,161,924	9,768,193	-	48,930,117	39,690,723	11,300,660	-	50,991,383
Other-Nursing Homes	-	-	12,973,529	12,973,529	-	-	-	-
Depreciation and amortization	<u>23,017,759</u>	<u>638,513</u>	-	<u>23,656,272</u>	<u>21,813,745</u>	<u>547,159</u>	-	<u>22,360,904</u>
Total expenses	<u>239,686,299</u>	<u>43,892,345</u>	<u>12,973,529</u>	<u>296,552,173</u>	<u>238,351,129</u>	<u>40,799,599</u>	-	<u>279,150,728</u>
Income (loss) from operations	20,171,578	(5,499,195)	-	14,672,383	7,830,106	(6,605,533)	-	1,226,633
Other nonoperating income and expense:								
Ad valorem tax support	29,353,487	-	-	29,353,487	27,590,399	-	-	27,590,399
Investment income	124,765	18	-	124,783	141,360	14	-	141,374
Other nonoperating income (loss)	7,255,287	(3,584,292)	-	3,670,995	(26,559,178)	(3,560,179)	-	(30,119,357)
Regional upper payment limit contributions	(25,781,122)	-	-	(25,781,122)	(25,481,122)	-	-	(25,481,122)
Transfers from(to) related entities	(7,606,036)	7,606,036	-	-	(8,090,000)	8,090,000	-	-
Interest on long-term debt	<u>(6,772,591)</u>	<u>(2,565)</u>	-	<u>(6,775,156)</u>	<u>(6,719,656)</u>	<u>(4,405)</u>	-	<u>(6,724,061)</u>
Total other nonoperating income (loss)	<u>(3,426,210)</u>	<u>4,019,197</u>	-	<u>592,987</u>	<u>(39,118,197)</u>	<u>4,525,430</u>	-	<u>(34,592,767)</u>
Income (loss) before distribution to other beneficial owners and capital grants and gifts	16,745,368	(1,479,998)	-	15,265,370	(31,288,031)	(2,078,103)	-	(33,366,134)
Distribution to other beneficial owners of partnership								
Capital grants and gifts	<u>(7,095,586)</u>	-	-	<u>(7,095,586)</u>	<u>(8,548,050)</u>	-	-	<u>(8,548,050)</u>
	<u>2,088,922</u>	-	-	<u>2,088,922</u>	<u>5,134,887</u>	-	-	<u>5,134,887</u>
Change in net position	11,738,704	(1,479,998)	-	10,258,706	(34,701,194)	(2,078,103)	-	(36,779,297)
Net position – beginning of year	<u>136,393,473</u>	<u>1,787,973</u>	-	<u>138,181,446</u>	<u>171,094,667</u>	<u>3,866,076</u>	-	<u>174,960,743</u>
Net position – end of year	<u>\$148,132,177</u>	<u>\$ 307,975</u>	\$ -	<u>\$148,440,152</u>	<u>\$136,393,473</u>	<u>\$ 1,787,973</u>	\$ -	<u>\$138,181,446</u>

Midland County Hospital District

NOTES TO FINANCIAL STATEMENTS - CONTINUED

September 30, 2017 and 2016

NOTE 15 - COMBINING COMPONENT UNIT INFORMATION - Continued

The following table includes condensed combining statements of cash flow information for the District and its blended component units for the years ended September 30, 2017 and 2016.

	2017				2016			
	Midland County Hospital District	501(a) Entities	Nursing Homes	The District Combined	Midland County Hospital District	501(a) Entities	Nursing Homes	The District Combined
Net cash provided by (used in) operating activities	\$ 46,213,187	\$(3,377,390)	\$1,475,914	\$ 44,311,711	\$ 18,342,118	\$(4,088,711)	\$ -	\$ 14,253,407
Net cash provided by (used in) noncapital financing activities	(3,538,251)	-	-	(3,538,251)	(5,418,311)	-	-	(5,418,311)
Net cash (used in) provided by capital and related financing activities	(21,284,720)	(134,238)	-	(21,418,958)	24,405,912	(415,164)	-	23,990,748
Net cash (used in) provided by investing activities	<u>(15,577,204)</u>	<u>4,021,762</u>	<u>-</u>	<u>(11,555,442)</u>	<u>(43,920,229)</u>	<u>4,574,563</u>	<u>-</u>	<u>(39,345,666)</u>
Net increase (decrease) in cash and cash equivalents	5,813,012	510,134	1,475,914	7,799,060	(6,590,510)	70,688	-	(6,519,822)
Cash and cash equivalents, beginning of year	<u>27,505,934</u>	<u>862,319</u>	<u>-</u>	<u>28,368,253</u>	<u>34,096,444</u>	<u>791,631</u>	<u>-</u>	<u>34,888,075</u>
Cash and cash equivalents, end of year	<u>\$ 33,318,946</u>	<u>\$ 1,372,453</u>	<u>\$ 1,475,914</u>	<u>\$ 36,167,313</u>	<u>\$ 27,505,934</u>	<u>\$ 862,319</u>	<u>\$ -</u>	<u>\$ 28,368,253</u>

REQUIRED SUPPLEMENTARY INFORMATION
(UNAUDITED)

MIDLAND COUNTY HOSPITAL DISTRICT

Statement of Changes in the Net Pension Liability and Related Ratios

	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability			
Interest	\$ 4,840,667	\$ 4,803,747	\$ 4,497,604
Differences between expected and actual experience	94,028	(424,609)	(20,677)
Changes of assumptions	(1,025,940)	(111,971)	2,786,166
Benefit payments, including refunds of member contributions	<u>(3,801,415)</u>	<u>(3,626,455)</u>	<u>(3,347,151)</u>
Net change in total pension liability	<u>107,340</u>	<u>640,712</u>	<u>3,915,942</u>
Total pension liability—beginning	62,526,524	61,885,812	57,969,870
Total pension liability—ending (a)	<u>62,633,864</u>	<u>62,526,524</u>	<u>61,885,812</u>
Plan fiduciary net position			
Contributions—employer	2,500,000	2,500,000	2,500,000
Net investment income (loss)	3,224,620	3,330,578	(1,539,128)
Benefit payments, including refunds of member contributions	<u>(3,801,415)</u>	<u>(3,626,455)</u>	<u>(3,347,151)</u>
Net change in plan fiduciary net position	<u>1,923,205</u>	<u>2,204,123</u>	<u>(2,386,279)</u>
Plan fiduciary net position—beginning	<u>36,180,424</u>	<u>33,976,301</u>	<u>36,362,580</u>
Plan fiduciary net position—ending (b)	<u>38,103,629</u>	<u>36,180,424</u>	<u>33,976,301</u>
District’s net pension liability—ending (a) – (b)	<u>\$24,530,235</u>	<u>\$26,346,100</u>	<u>\$27,909,511</u>
Plan fiduciary net position as a percentage of the total pension liability	60.84%	57.86%	54.90%
Covered-employee payroll	N/A	N/A	N/A
District’s net pension liability as a percentage of covered-employee payroll	N/A	N/A	N/A

Notes to Schedule:

Changes of assumptions. A temporary lump sum window was opened for vested terminated participants in 2012 which allows certain participants to choose a lump sum payment option.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

MIDLAND COUNTY HOSPITAL DISTRICT

Statement of Employer Contributions

	2017	2016	2015
Actuarially determined contribution	\$1,937,543	\$1,996,818	\$1,785,418
Contributions in relation to the actuarially determined contribution	<u>2,500,000</u>	<u>2,500,000</u>	<u>2,500,000</u>
Contribution excess	<u>\$ 562,457</u>	<u>\$ 503,182</u>	<u>\$ 714,582</u>
Covered-employee payroll	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A

Notes to Schedule:

Valuation date:

Actuarially determined contribution rates are calculated as of 1/1 one year prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal cost
Amortization method	Average future working lifetime of participants
Remaining amortization period	2.5 years
Asset valuation method	5-year smoothed market
Inflation	3%
Salary increases	N/A
Investment rate of return	8%, net of pension plan administrative expense, including inflation
Retirement age	65
Mortality	Static mortality table in accordance with IRS Regulation 1.430(h)(3)-1 for the valuation year

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

SUPPLEMENTARY SCHEDULES

MIDLAND COUNTY HOSPITAL DISTRICT

Divisional Statements of Net Position

September 30, 2017 and 2016

Assets and Deferred Outflows of Resources	The District		Premier Family Care		Permian Cardiology, Inc.		Midland, Texas Orthopedic Group, Inc.		Midland Inpatient Medical Associates		Nursing Homes		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Current assets:														
Cash and cash equivalents	\$ 20,029,531	\$ 14,121,694	\$1,137,059	\$ 524,501	\$113,543	\$199,250	\$ 35,528	\$ 108,881	\$ 86,323	\$ 29,687	\$ -	\$ -	\$ 21,401,984	\$ 14,984,013
Cash and cash equivalents – Nursing Homes	-	-	-	-	-	-	-	-	-	-	1,475,914	-	1,475,914	-
Cash designated for other capital projects	10,825,255	10,923,926	-	-	-	-	-	-	-	-	-	-	10,825,255	10,923,926
Short -term investments	7,921,865	7,976,576	-	-	-	-	-	-	-	-	-	-	7,921,865	7,976,576
Tax receivable, less allowance for doubtful accounts	845,492	660,903	-	-	-	-	-	-	-	-	-	-	845,492	660,903
Patient accounts receivable, less allowance for doubtful accounts	39,573,155	37,827,882	587,411	756,735	294,140	313,285	697,238	393,379	(61,418)	572,110	-	-	41,090,526	39,863,391
Patient accounts receivable – Nursing Homes	-	-	-	-	-	-	-	-	-	-	4,901,927	-	4,901,927	-
Inventories	8,275,496	8,335,329	-	-	-	-	178,420	101,368	-	-	-	-	8,453,916	8,436,697
Prepaid expenses	2,604,627	2,866,639	146,767	44,175	(2,878)	12,918	51,956	61,265	(42,489)	7,342	-	-	2,757,983	2,992,339
Other receivables	8,490,988	8,091,443	202,966	369,358	108,657	63,282	103	103	790	-	-	-	8,803,504	8,524,186
Amounts due from Medicare and Medicaid	16,198,160	19,534,361	-	-	-	-	-	-	-	-	-	-	16,198,160	19,534,361
Self-funded insurance funds, current	952,610	1,129,818	-	-	-	-	-	-	-	-	-	-	952,610	1,129,818
Investments designated for bond indenture	9,348,729	3,973,188	-	-	-	-	-	-	-	-	-	-	9,348,729	3,973,188
Total current assets	125,065,908	115,441,759	2,074,203	1,694,769	513,462	588,735	963,245	664,996	(16,794)	609,139	6,377,841	-	134,977,865	118,999,398
Noncurrent cash and investments														
Restricted tower funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Restricted under debt agreement	2,464,160	2,460,314	-	-	-	-	-	-	-	-	-	-	2,464,160	2,460,314
Self-funded insurance funds	1,335,823	1,052,198	-	-	-	-	-	-	-	-	-	-	1,335,823	1,052,198
Total investments limited as to use	3,799,983	3,512,512	-	-	-	-	-	-	-	-	-	-	3,799,983	3,512,512
Capital assets, net of accumulated depreciation	230,820,593	234,345,895	1,231,401	1,502,383	43,736	64,938	298,661	536,575	-	-	-	-	232,394,391	236,449,791
Other assets:														
Goodwill and intangibles, net of accumulated amortization	3,362,870	3,570,867	-	-	-	-	-	-	-	-	-	-	3,362,870	3,570,867
Other	12,423,837	11,356,259	7,523	7,524	-	-	-	-	-	-	-	-	12,431,360	11,363,783
Total other assets	15,786,707	14,927,126	7,523	7,524	-	-	-	-	-	-	-	-	15,794,230	14,934,650
Total assets	375,473,191	368,227,292	3,313,127	3,204,676	557,198	653,673	1,261,906	1,201,571	(16,794)	609,139	6,377,841	-	386,966,469	373,896,351
Deferred outflows of resources	4,628,440	6,669,916	-	-	-	-	-	-	-	-	-	-	4,628,440	6,669,916
Total assets and deferred outflows of resources	\$380,101,631	\$374,897,208	\$3,313,127	\$3,204,676	\$557,198	\$653,673	\$1,261,906	\$1,201,571	\$(16,794)	\$609,139	\$6,377,841	\$-	\$391,594,909	\$380,566,267

MIDLAND COUNTY HOSPITAL DISTRICT

Divisional Statements of Net Position

September 30, 2017 and 2016

Liabilities and Deferred Inflows of Resources	The District		Premier Family Care		Permian Cardiology, Inc.		Midland, Texas Orthopedic Group, Inc.		Midland Inpatient Medical Associates		Nursing Homes		Total	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Current liabilities:														
Accounts payable and accrued liabilities	\$ 17,025,652	\$ 17,686,737	\$ 3,060	\$ 429,989	\$119,302	\$ 76,254	\$ 726,301	\$ 416,854	\$ 1,217,566	\$1,348,931	\$ -	\$ -	\$ 19,091,881	\$ 19,958,765
Accounts payable and accrued liabilities - Nursing Homes	-	-	-	-	-	-	-	-	-	-	6,377,841	-	6,377,841	-
Accrued interest payable	1,663,508	2,007,838	-	-	-	-	-	-	-	-	-	-	1,663,508	2,007,838
Accrued payroll	9,241,110	8,213,597	1,008,093	1,059,923	323,139	218,208	248,128	62,699	1,149,885	232,980	-	-	11,970,355	9,787,407
Accrued self-insurance liabilities	3,263,999	2,718,167	-	-	-	-	-	-	-	-	-	-	3,263,999	2,718,167
Current maturities of general obligation bonds payable	2,860,000	1,727,750	-	-	-	-	-	-	-	-	-	-	2,860,000	1,727,750
Current maturities of long-term debt	<u>8,064,292</u>	<u>15,218,536</u>	<u>11,988</u>	<u>23,141</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8,076,287</u>	<u>15,241,677</u>
Total current liabilities	42,118,568	47,572,625	1,023,141	1,513,053	442,441	294,462	974,429	479,553	2,367,451	1,581,911	6,377,841	-	53,303,871	51,441,604
Payable for pension obligation	24,530,235	26,346,100	-	-	-	-	-	-	-	-	-	-	24,530,235	26,346,100
Interest rate swap	684,827	1,237,011	-	-	-	-	-	-	-	-	-	-	684,827	1,237,011
Long-term debt and other liabilities	64,988,438	58,856,280	-	12,107	-	-	-	-	-	-	-	-	64,988,438	58,868,387
General obligation bonds payable	<u>95,520,000</u>	<u>99,406,458</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>95,520,000</u>	<u>99,406,458</u>
Total liabilities	227,842,068	233,418,474	1,023,141	1,525,160	442,441	294,462	974,429	479,553	2,367,451	1,581,911	6,377,841	-	239,027,371	237,299,560
Deferred inflows of resources	<u>4,127,386</u>	<u>5,085,261</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>4,127,386</u>	<u>5,085,261</u>
Net position														
Net investment in capital assets	86,402,945	101,381,797	1,219,412	1,467,136	43,736	64,938	298,661	536,575	-	-	-	-	87,964,754	103,450,446
Restricted - expendable for capital assets	10,825,255	10,923,926	-	-	-	-	-	-	-	-	-	-	10,825,255	10,923,926
Restricted - expendable for debt services	11,812,888	6,433,502	-	-	-	-	-	-	-	-	-	-	11,812,888	6,433,502
Unrestricted	<u>39,091,089</u>	<u>17,654,248</u>	<u>1,070,574</u>	<u>212,380</u>	<u>71,021</u>	<u>294,273</u>	<u>(11,184)</u>	<u>185,443</u>	<u>(2,384,245)</u>	<u>(972,772)</u>	<u>-</u>	<u>-</u>	<u>37,837,255</u>	<u>17,373,572</u>
Total net position	<u>148,132,177</u>	<u>136,393,473</u>	<u>2,289,986</u>	<u>1,679,516</u>	<u>114,757</u>	<u>359,211</u>	<u>287,477</u>	<u>722,018</u>	<u>(2,384,245)</u>	<u>(972,772)</u>	<u>-</u>	<u>-</u>	<u>148,440,152</u>	<u>138,181,446</u>
Total liabilities, deferred inflows of resources and net position	<u>\$380,101,631</u>	<u>\$374,897,208</u>	<u>\$3,313,127</u>	<u>\$3,204,676</u>	<u>\$557,198</u>	<u>\$653,673</u>	<u>\$1,261,906</u>	<u>\$1,201,751</u>	<u>\$ (16,794)</u>	<u>\$ 609,139</u>	<u>\$6,377,841</u>	<u>\$ -</u>	<u>\$391,594,909</u>	<u>\$380,566,267</u>

MIDLAND COUNTY HOSPITAL DISTRICT

Divisional Schedule of Revenues, Expenses and Changes in Net Position

Years Ended September 30, 2017 and 2016

	<u>The District</u>		<u>Premier Family Care</u>		<u>Permian Cardiology, Inc.</u>		<u>Midland, Texas Orthopedic Group, Inc.</u>		<u>Midland Inpatient Medical Associates</u>		<u>Nursing Homes</u>		<u>Total</u>	
	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016	2017	2016
Revenues:														
Net patient care revenues	\$250,533,455	\$237,339,226	\$ 8,628,823	\$11,108,717	\$ 2,867,699	\$ 3,262,523	\$5,614,684	\$ 4,675,695	\$ 2,491,765	\$ 1,658,241	\$ -	\$ -	\$270,136,426	\$258,044,402
Net patient care revenue – Nursing Homes	-	-	-	-	-	-	-	-	-	-	12,973,529	-	12,973,529	-
Other income	<u>9,324,422</u>	<u>8,842,069</u>	<u>11,066,506</u>	<u>8,587,693</u>	<u>224,100</u>	<u>190,623</u>	<u>803,670</u>	<u>5,248</u>	<u>6,695,903</u>	<u>4,707,326</u>	-	-	<u>28,114,601</u>	<u>22,332,959</u>
Total revenues	259,857,877	246,181,295	19,695,329	19,696,410	3,091,799	3,453,146	6,418,354	4,680,943	9,187,668	6,365,567	12,973,529	-	311,224,556	280,377,361
Expenses:														
Salaries and fringe benefits	130,902,754	129,659,994	13,460,849	14,751,858	4,191,793	5,004,689	6,571,872	5,028,811	6,602,040	1,724,311	-	-	161,729,308	156,169,663
Supplies	46,603,862	47,186,667	1,586,876	1,518,825	344,997	167,130	723,669	752,920	3,543	3,236	-	-	49,262,947	49,628,778
Other	39,161,924	39,690,723	3,693,843	3,812,114	749,102	855,799	1,331,690	1,021,955	3,993,558	5,610,792	-	-	48,930,117	50,991,383
Other – Nursing Homes	-	-	-	-	-	-	-	-	-	-	12,973,529	-	12,973,529	-
Depreciation and amortization	<u>23,017,759</u>	<u>21,813,745</u>	<u>340,800</u>	<u>341,479</u>	<u>25,311</u>	<u>25,000</u>	<u>272,402</u>	<u>180,680</u>	-	-	-	-	<u>23,656,272</u>	<u>22,360,904</u>
Total expenses	<u>239,686,299</u>	<u>238,351,129</u>	<u>19,082,368</u>	<u>20,424,276</u>	<u>5,311,203</u>	<u>6,052,618</u>	<u>8,899,633</u>	<u>6,984,366</u>	<u>10,599,141</u>	<u>7,338,339</u>	<u>12,973,529</u>	-	<u>296,552,173</u>	<u>279,150,728</u>
Income (loss) from operations	20,171,578	7,830,166	612,961	(727,866)	(2,219,404)	(2,599,472)	(2,481,279)	(2,303,423)	(1,411,473)	(972,772)	-	-	14,672,383	1,226,633
Other nonoperating income and expense:														
Ad valorem tax support	29,353,487	27,590,399	-	-	-	-	-	-	-	-	-	-	29,353,487	27,590,399
Investment income	124,765	141,360	18	14	-	-	-	-	-	-	-	-	124,783	141,374
Other nonoperating income (loss)	7,255,287	(26,559,178)	(1,862,620)	(2,110,229)	(8,004)	-	-	50	(1,713,668)	(1,450,000)	-	-	3,670,995	(30,119,357)
Regional upper payment limit contributions	(25,781,122)	(25,481,122)	-	-	-	-	-	-	-	-	-	-	(25,781,122)	(25,481,122)
Transfers from (to) related entities	(7,606,036)	(8,090,000)	1,862,621	2,090,000	1,982,954	2,611,300	2,046,793	1,938,700	1,713,668	1,450,000	-	-	-	-
Interest on long-term debt	<u>(6,772,591)</u>	<u>(6,719,656)</u>	<u>(2,510)</u>	<u>(4,360)</u>	-	-	<u>(55)</u>	<u>(45)</u>	-	-	-	-	<u>(6,775,156)</u>	<u>(6,724,061)</u>
Total other nonoperating income (loss)	<u>(3,426,210)</u>	<u>(39,118,197)</u>	<u>(2,491)</u>	<u>(24,575)</u>	<u>1,974,950</u>	<u>2,611,300</u>	<u>2,046,738</u>	<u>1,938,705</u>	-	-	-	-	<u>592,988</u>	<u>(34,592,767)</u>
Income (loss) before distribution to other beneficial owners and capital grants and gifts	16,745,368	(31,288,031)	610,470	(752,441)	(244,454)	11,829	(434,541)	(364,718)	(1,411,473)	(972,772)	-	-	15,265,370	(33,366,134)
Distribution to other beneficial owners of partnership	(7,095,586)	(8,548,050)	-	-	-	-	-	-	-	-	-	-	(7,095,586)	(8,548,050)
Capital grants and gifts	<u>2,088,922</u>	<u>5,134,887</u>	-	-	-	-	-	-	-	-	-	-	<u>2,088,922</u>	<u>5,134,887</u>
Change in net position	11,738,704	(34,701,194)	610,470	(752,441)	(244,454)	11,829	(434,541)	(364,718)	(1,411,473)	(972,772)	-	-	10,258,706	(36,779,297)
Net position – beginning of year	<u>136,393,473</u>	<u>171,094,667</u>	<u>1,679,516</u>	<u>2,431,957</u>	<u>359,211</u>	<u>347,383</u>	<u>722,018</u>	<u>1,086,736</u>	<u>(972,772)</u>	-	-	-	<u>138,181,446</u>	<u>174,960,743</u>
Net position – end of year	<u>\$148,132,177</u>	<u>\$136,393,473</u>	<u>\$ 2,289,986</u>	<u>\$ 1,679,516</u>	<u>\$ 114,757</u>	<u>\$ 359,211</u>	<u>\$ 287,477</u>	<u>\$ 722,018</u>	<u>\$ (2,384,245)</u>	<u>\$ (972,772)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$148,440,152</u>	<u>\$138,181,446</u>