

Midland County Hospital District
Independent Auditor's Report and Financial Statements
September 30, 2018 and 2017



Midland County Hospital District

September 30, 2018 and 2017

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Independent Auditor's Report

Audit Committee
Midland County Hospital District
Midland, Texas

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 year ended September 30, 2018, 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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, 2018, and the respective changes in its financial position and, where applicable, its cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Audited by Other Auditors

The 2017 financial statements were audited by other auditors, and their report thereon, dated February 16, 2018, expressed an unmodified opinion.

Emphasis of Matter

As discussed in *Note 1* to the financial statements, in 2018, the District changed its method of accounting for previously reported goodwill with the adoption of Governmental Accounting Standards Board Statement No. 85, *Omnibus 2017*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information, as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other 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 other information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such 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 other information has been subjected to the auditing procedures applied in the audits of the basic financial statements, and certain additional procedures, including comparing and reconciling such 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 other information is fairly stated in all material respects in relation to the financial statements as a whole.

The other information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Midland County Hospital District

Management's Discussion and Analysis

September 30, 2018 and 2017

Introduction

This management's discussion and analysis of the financial performance of Midland County Hospital District (the District) provides an overview of the District's financial activities for the years ended September 30, 2018 and 2017. It should be read in conjunction with the accompanying financial statements of the District. Unless otherwise indicated, amounts are in thousands.

Financial Highlights

- Unrestricted cash and investments decreased in 2018 from 2017 by \$18.3 million, or 63%, and increased in 2017 from 2016 by \$6.4 million, or 28%.
- The District's net position decreased in 2018 by \$16 million, or 11%, and increased in 2017 by \$10.2 million, or 7%.
- The District reported an operating loss in 2018 of \$26 million and an operating income in 2017 of \$10.7 million. The operating loss in 2018 increased by \$36.7 million over the operating income reported in 2017. The operating income in 2017 increased by \$9.5 million over the operating income reported in 2016.
- Net nonoperating revenues increased by \$11.1 million in 2018 compared to 2017 and increased \$39.2 million in 2017 compared to 2016.

Using This Annual Report

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

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

One of the most important questions asked about any District's finances is "Is the District as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses and Changes in Net Position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets, all liabilities and all deferred inflows and outflows of resources using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in it. The District's total net position—the difference between assets, liabilities and deferred inflows and outflows of resources—is one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the District's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the District.

Midland County Hospital District

Management's Discussion and Analysis

September 30, 2018 and 2017

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash and cash equivalents resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash and cash equivalents during the reporting period.

The District's Net Position

The District's net position is the difference between its assets, liabilities and deferred inflows and outflows of resources reported in the Balance Sheet. The District's net position decreased in 2018 by \$16 million, or 11%, and increased in 2017 by \$10.2 million, or 7%, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

Assets	<u>2018</u>	<u>2017</u>	<u>2016</u>
Patient accounts receivable, net	\$ 37,335,767	\$ 41,090,526	\$ 39,863,391
Estimated amounts due from third-party payers	27,961,513	16,198,160	19,534,361
Other current assets	37,962,941	77,689,179	59,601,646
Capital assets, net	239,541,277	232,394,391	236,449,791
Other noncurrent assets	<u>20,490,501</u>	<u>16,231,343</u>	<u>14,876,295</u>
Total assets	<u>363,291,999</u>	<u>383,603,599</u>	<u>370,325,484</u>
Deferred Outflows of Resources	<u>5,759,397</u>	<u>7,245,140</u>	<u>10,240,783</u>
Total assets and deferred outflows of resources	<u>\$ 369,051,396</u>	<u>\$ 390,848,739</u>	<u>\$ 380,566,267</u>
Liabilities			
Long-term debt	149,551,073	159,288,790	158,274,845
Net pension liability	23,089,015	24,530,235	26,346,100
Other current and noncurrent liabilities	<u>60,994,535</u>	<u>55,208,346</u>	<u>52,678,615</u>
Total liabilities	<u>233,634,623</u>	<u>239,027,371</u>	<u>237,299,560</u>
Deferred Inflows of Resources	<u>2,994,564</u>	<u>3,381,216</u>	<u>5,085,261</u>
Net Position			
Net investment in capital assets	97,143,868	87,964,754	103,450,446
Restricted - expendable for capital assets	2,372,714	10,825,255	10,923,926
Restricted - expendable for debt service	4,864,363	11,812,888	6,433,502
Unrestricted	<u>28,041,264</u>	<u>37,837,255</u>	<u>17,373,572</u>
Total net position	<u>132,422,209</u>	<u>148,440,152</u>	<u>138,181,446</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 369,051,396</u>	<u>\$ 390,848,739</u>	<u>\$ 380,566,267</u>

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Management's Discussion and Analysis
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A significant change in the District's assets in 2018 is a reduction in unrestricted cash and investments. Unrestricted cash and investments decreased in 2018 from 2017 by \$18.3 million, or 63%. The reduction in cash and investments resulted, in part, from the overall decrease in net position this year of \$16 million, and in part from delays in collections on patient accounts after the transition to a new electronic health record system. The District's estimated amounts due from third-party payers increased by \$11.8 million, or 73%, due to the timing of receipts from various supplemental Medicaid funding programs.

A significant change in the District's assets in 2017 is an increase in unrestricted cash and investments by \$6.4 million, or 28%. In 2017, the District also entered into limited revenue bonds for \$15.5 million to finance the cost of acquisition and implementation of an electronic health record system.

Operating Results and Changes in the District's Net Position

The District's net position decreased in 2018 by \$16 million, or 11%, as shown in Table 2. This decrease is made up of several different components and represents decline of 256% compared with the increase in net position for 2017 of \$10.3 million. The District's change in net position increased from a decrease of \$36.8 million in 2016 to an increase of \$10.3 million in 2017, an overall increase of 128%.

Midland County Hospital District

Management's Discussion and Analysis

September 30, 2018 and 2017

Table 2: Operating Results and Changes in Net Position

	<u>2018</u>	<u>2017</u>	<u>2016</u>
Operating Revenues			
Net patient care revenues	\$ 256,950,547	\$ 273,436,426	\$ 258,044,402
Net patient care revenues- Nursing Homes	24,774,072	12,973,529	-
Other operating revenues	<u>13,556,550</u>	<u>21,238,313</u>	<u>22,332,959</u>
Total operating revenues	<u>295,281,169</u>	<u>307,648,268</u>	<u>280,377,361</u>
Operating Expenses			
Salaries and benefits	159,153,105	161,729,308	156,169,663
Supplies and other	114,089,301	98,591,684	100,620,161
Other-Nursing Homes	24,774,072	12,973,529	-
Depreciation and amortization	<u>23,236,512</u>	<u>23,656,272</u>	<u>22,360,904</u>
Total operating expenses	<u>321,252,990</u>	<u>296,950,793</u>	<u>279,150,728</u>
Operating Income (Loss)	<u>(25,971,821)</u>	<u>10,697,475</u>	<u>1,226,633</u>
Nonoperating Revenues (Expenses)			
Ad valorem tax support	32,211,727	29,353,487	27,590,399
Interest income	187,568	124,783	141,374
Interest expense and BAB subsidy	(6,534,755)	(6,775,156)	(6,724,061)
Contributions to government programs	(16,058,681)	(25,781,122)	(25,481,122)
Other nonoperating revenue (expense), net	<u>5,946,083</u>	<u>7,645,903</u>	<u>(30,119,357)</u>
Total nonoperating revenues (expenses)	<u>15,751,942</u>	<u>4,567,895</u>	<u>(34,592,767)</u>
Excess (Deficiency) of Revenues Over Expenses Before Distribution to Other Beneficial Owners of Partnership and Capital Grants and Gifts	(10,219,879)	15,265,370	(33,366,134)
Distributions to Other Beneficial Owners of Partnership	(7,283,040)	(7,095,586)	(8,548,050)
Capital Grants and Gifts	<u>1,484,976</u>	<u>2,088,922</u>	<u>5,134,887</u>
Change in Net Position	(16,017,943)	10,258,706	(36,779,297)
Net Position - Beginning of Year	<u>148,440,152</u>	<u>138,181,446</u>	<u>174,960,743</u>
Net Position - End of Year	<u>\$ 132,422,209</u>	<u>\$ 148,440,152</u>	<u>\$ 138,181,446</u>

Operating Income (Loss)

The first component of the overall change in the District's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The District was formed and is operated primarily to serve residents of Midland County and the surrounding area. The District levies property taxes to provide resources to enable the facility to serve lower income and other residents.

The operating loss for 2018 increased by \$36.7 million, or 343%, as compared to 2017. The primary components of the increased operating loss are:

- A decrease in net patient service revenue of \$16.5 million, or 6%.
- An increase in other operating expenses for the District's operations of \$15.5 million, or 16%.

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Management's Discussion and Analysis

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Net patient service revenue decreased because of fluctuations in volume from 2017 to 2018. During 2018, the District also recognized a significant increase in contractual adjustments and the provision for uncollectable accounts as a result of an assessment of changes in collection trends on patient accounts.

The rate of health care inflation has a direct effect on the cost of services provided by the District. Expenditures for medical supplies and prescription drugs are a major component of the District's costs. In 2018, medical supplies and prescription drug costs totaled \$50.3 million, or 16% of total operating expenses. In 2017, medical supplies and prescription drug costs totaled \$49.3 million, or 17% of total operating expenses, an increase of \$1.1 million or 2% over 2017. Some of the major factors contributing to the increased medical supply and drug costs include an aging population, the introduction of new drugs that cannot be obtained in generic form and changes in therapeutic mix.

Other operating expenses increased by \$14.4 million, or 29%, in 2018 over 2017, primarily due to a decrease in support received from various hospital affiliation agreements.

The operating income for 2017 of \$10.7 million, was an increase of \$9.5 million, or 772%, from the operating income reported for 2016 of \$1.2 million. Overall, total operating revenues increased in 2017 by \$27.3 million, or 10%, from 2016 and total operating expenses increased in 2017 by \$17.8 million, or 6%, from 2016. The increase in total operating revenues and expenses in 2017 was primarily due to participation in the nursing home program discussed in *Note 1*.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist of ad valorem taxes levied by the District, investment income, interest expense and contributions to government program. Ad valorem tax support increased by \$2.9 million, or 10%, in 2018 as compared to 2017. As previously mentioned, the District had an increase in operating expenses in 2018 due to a reduction in support through various hospital affiliation arrangements. This resulted in a decrease in contributions to government programs in 2018 from 2017 of \$9.8 million.

Capital Grants and Gifts

The District received gifts of \$1.5 million from Midland Memorial Foundation to purchase capital assets in 2018, a decrease of \$603,946, or 29% from 2017. Substantially all of these gifts have been expended as of September 30, 2018.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses for 2018, 2017 and 2016, discussed earlier, with one exception. Cash used by operating activities was less than the operating loss in 2018 due to changes in estimates of patient accounts receivable that increased contractual adjustments and the provision for uncollectable accounts in 2018.

Capital Asset and Debt Administration

Capital Assets

At the end of 2018, the District had \$239,541,277 invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements. In 2018, the District completed the implementation of a new

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Management's Discussion and Analysis
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electronic medical health record. This purchase spanned over the course of two years with a total cost of \$27 million. Of this amount, \$15.5 million was acquired through incursion of debt obligations.

Debt

At the end of 2018, the District had \$160,503,130 in revenue bonds, notes payable and general obligations bonds and capital lease obligations outstanding. The District has access to an open line of credit with its' depository institution in the amount of \$20,000,000. In 2018, the District intermittently drew on the letter of credit in the amount of \$21,800,000, which was paid in full during the year. As of September 30, 2018, and September 30, 2017, there were no amounts due on the line of credit.

Other Economic Factors

The District budgeted an increase in net position of \$6.1 million for fiscal year 2019. This assumes that patient volumes will be sustainable with slight increases from those achieved in 2018. The 2019 budget includes annual rate adjustment assumptions which are expected to increase the District's net patient revenue by \$2.2 million.

Contacting the District's Financial Management

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

Midland County Hospital District
Balance Sheets
September 30, 2018 and 2017

Assets and Deferred Outflows of Resources	2018		2017	
	The District	Component Unit Foundation	The District	Component Unit Foundation
	The District	Component Unit Foundation	The District	Component Unit Foundation
Current assets				
Cash and cash equivalents	\$ 2,745,468	\$ 951,321	\$ 21,401,984	\$ 504,318
Cash and cash equivalents-Nursing Homes	22,333	-	1,475,914	-
Cash designated for capital projects	2,372,714	-	10,825,255	-
Short-term investments	8,228,819	33,662,834	7,921,865	29,746,096
Property tax receivable, net	920,770	-	845,492	-
Patient accounts receivable, less allowance for doubtful accounts of \$53,304,000 in 2018 and \$26,128,000 in 2017	37,335,767	-	41,090,526	-
Patient accounts receivable-Nursing Homes, net	3,596,078	-	4,901,927	-
Supplies	8,422,193	-	8,453,916	-
Prepaid expenses	1,992,465	-	2,757,983	-
Other receivables	6,529,960	52,151	8,803,504	27,049
Estimated amounts due from third-party payers	27,961,513	-	16,198,160	-
Self-funded insurance funds, current	735,801	-	952,610	-
Investments designated for bond indenture	2,396,340	-	9,348,729	-
Total current assets	103,260,221	34,666,306	134,977,865	30,277,463
Noncurrent cash and investments				
Restricted under debt agreement	2,468,023	-	2,464,160	-
Self-funded insurance funds	1,318,367	-	1,335,823	-
Donor restricted funds	-	25,622,986	-	26,303,605
Total noncurrent cash and investments	3,786,390	25,622,986	3,799,983	26,303,605
Capital assets, net of accumulated depreciation	239,541,277	168,162	232,394,391	168,162
Other assets	16,704,111	-	12,431,360	-
Total assets	363,291,999	60,457,454	383,603,599	56,749,230
Deferred outflows of resources	5,759,397	-	7,245,140	-
Total assets and deferred outflows of resources	\$ 369,051,396	\$ 60,457,454	\$ 390,848,739	\$ 56,749,230

See notes to financial statements

Midland County Hospital District
Balance Sheets (Continued)
September 30, 2018 and 2017

	2018		2017	
	The District	Component Unit Foundation	The District	Component Unit Foundation
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Liabilities and Deferred Inflows of Resources				
Current liabilities				
Accounts payable and accrued liabilities	\$ 27,269,123	\$ 903,256	\$ 19,091,881	\$ 480,855
Accounts payable and accrued liabilities-Nursing Homes	3,618,411	-	6,377,841	-
Accrued interest payable	2,600,554	-	1,663,508	-
Accrued payroll	12,734,019	-	11,970,355	-
Accrued self-insurance liabilities	1,818,714	-	3,263,999	-
Current maturities of general obligation bonds payable	2,960,000	-	2,860,000	-
Current maturities of long-term debt	7,992,057	-	8,076,287	-
	<u>58,992,878</u>	<u>903,256</u>	<u>53,303,871</u>	<u>480,855</u>
Total current liabilities				
Net pension liability	23,089,015	-	24,530,235	-
Interest rate swap	287,357	-	684,827	-
Accrued self-insurance liabilities	1,714,300	-	1,219,648	-
Long-term debt	56,991,073	-	63,768,790	-
General obligation bonds payable	92,560,000	-	95,520,000	-
	<u>233,634,623</u>	<u>903,256</u>	<u>239,027,371</u>	<u>480,855</u>
Total liabilities				
Deferred inflows of resources	2,994,564	-	3,381,216	-
	<u>2,994,564</u>	<u>-</u>	<u>3,381,216</u>	<u>-</u>
Net Position				
Net investment in capital assets	97,143,868	168,162	87,964,754	168,162
Restricted - expendable for capital assets	2,372,714	12,364,084	10,825,255	10,610,825
Restricted - expendable for debt service	4,864,363	-	11,812,888	-
Restricted - nonexpendable	-	48,148,875	-	47,867,171
Unrestricted	28,041,264	(1,126,923)	37,837,255	(2,377,783)
	<u>28,041,264</u>	<u>(1,126,923)</u>	<u>37,837,255</u>	<u>(2,377,783)</u>
Total net position	<u>132,422,209</u>	<u>59,554,198</u>	<u>148,440,152</u>	<u>56,268,375</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 369,051,396</u>	<u>\$ 60,457,454</u>	<u>\$ 390,848,739</u>	<u>\$ 56,749,230</u>

See notes to financial statements

Midland County Hospital District
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2018 and 2017

	2018		2017	
	The District	Component Unit Foundation	The District	Component Unit Foundation
Operating Revenues				
Net patient care revenues	\$ 256,950,547	\$ -	\$ 273,436,426	\$ -
Net patient care revenues- Nursing Homes	24,774,072	-	12,973,529	-
Other operating revenues	13,556,550	5,066,629	21,238,313	19,211,038
Total operating revenues	<u>295,281,169</u>	<u>5,066,629</u>	<u>307,648,268</u>	<u>19,211,038</u>
Operating Expenses				
Salaries and benefits	159,153,105	-	161,729,308	-
Supplies	50,317,642	-	49,262,947	-
Other	63,771,659	4,234,497	49,328,737	4,331,034
Other-Nursing Homes	24,774,072	-	12,973,529	-
Depreciation and amortization	23,236,512	-	23,656,272	-
Total operating expenses	<u>321,252,990</u>	<u>4,234,497</u>	<u>296,950,793</u>	<u>4,331,034</u>
Operating Income (Loss)	<u>(25,971,821)</u>	<u>832,132</u>	<u>10,697,475</u>	<u>14,880,004</u>
Nonoperating Revenues (Expenses)				
Ad valorem tax support	32,211,727	-	29,353,487	-
Interest income	187,568	2,453,691	124,783	2,943,632
Interest expense	(8,642,196)	-	(8,936,637)	-
Build America Bond interest subsidy	2,107,441	-	2,161,481	-
Contributions to government programs	(16,058,681)	-	(25,781,122)	-
Other nonoperating revenue, net	5,946,083	-	7,645,903	-
Total nonoperating revenues (expenses)	<u>15,751,942</u>	<u>2,453,691</u>	<u>4,567,895</u>	<u>2,943,632</u>
Excess (Deficiency) of Revenues Over Expenses Before Distribution to Other Beneficial Owners of Partnership and Capital Grants and Gifts	(10,219,879)	3,285,823	15,265,370	17,823,636
Distributions to Other Beneficial Owners of Partnership	(7,283,040)	-	(7,095,586)	-
Capital Grants and Gifts	<u>1,484,976</u>	<u>-</u>	<u>2,088,922</u>	<u>-</u>
Change in Net Position	(16,017,943)	3,285,823	10,258,706	17,823,636
Net Position - Beginning of Year	<u>148,440,152</u>	<u>56,268,375</u>	<u>138,181,446</u>	<u>38,444,739</u>
Net Position - End of Year	<u>\$ 132,422,209</u>	<u>\$ 59,554,198</u>	<u>\$ 148,440,152</u>	<u>\$ 56,268,375</u>

See notes to financial statements

Midland County Hospital District
Statements of Cash Flows
Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Operating Activities		
Cash received for patient care	\$ 249,426,333	\$ 277,742,381
Cash received for patient care-Nursing Homes	25,595,541	8,071,601
Cash received from others	13,235,913	18,762,107
Cash payments to suppliers for goods and services	(131,497,223)	(99,241,430)
Cash payments to suppliers for goods and services-Nursing Homes	(2,759,430)	(6,595,687)
Cash payments to employees for services	(159,647,912)	(158,402,169)
	<u>(5,646,778)</u>	<u>40,336,803</u>
Net cash provided by (used in) operating activities		
Noncapital Financing Activities		
Ad valorem tax support	25,139,442	22,242,871
Contributions to Regional Upper Payment Limit Program	(16,058,681)	(25,781,122)
	<u>9,080,761</u>	<u>(3,538,251)</u>
Net cash provided by (used in) noncapital financing activities		
Capital and Related Financing Activities		
Ad valorem tax support related to general obligation bonds	6,997,007	6,926,027
Proceeds from temporary letter of credit	21,800,000	5,000,000
Payments on temporary letter of credit	(21,800,000)	-
Proceeds from issuance of long-term debt	-	15,500,000
Principal payments on general obligation bonds	(2,860,000)	(2,735,000)
Principal payments on long-term debt obligations	(6,861,947)	(21,414,717)
Interest paid on long-term debt obligations	(2,109,642)	(2,833,444)
Interest paid on general obligation funds	(5,595,508)	(6,464,353)
Receipt of Build America Bond interest subsidy	2,107,441	2,161,481
Proceeds from future revenue distributions	-	(255,000)
Purchases of capital assets	(26,930,841)	(19,392,874)
Contributions for capital purchases	1,484,976	2,088,922
	<u>(33,768,514)</u>	<u>(21,418,958)</u>
Net cash used in capital and related financing activities		
Investing Activities		
Interest income	187,568	124,783
Distributions to other beneficial owners	(7,283,040)	(7,095,586)
Sale of investments	17,159,158	892,894
Purchase of investments	(10,513,723)	(8,080,951)
Other investing activity	2,225,793	6,578,326
	<u>1,775,756</u>	<u>(7,580,534)</u>
Net cash provided by (used in) investing activities		
Increase (Decrease) in Cash and Cash Equivalents	(28,558,775)	7,799,060
Cash and Cash Equivalents, Beginning of Year	<u>36,167,313</u>	<u>28,368,253</u>
Cash and Cash Equivalents, End of Year	\$ <u><u>7,608,538</u></u>	\$ <u><u>36,167,313</u></u>

See notes to financial statements

Midland County Hospital District
Statements of Cash Flows (Continued)
Years Ended September 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 2,745,468	\$ 21,401,984
Cash and cash equivalents-Nursing Homes	22,333	1,475,914
Cash designated for other capital projects	2,372,714	10,825,255
Restricted under debt agreement	<u>2,468,023</u>	<u>2,464,160</u>
Total cash and cash equivalents	<u>\$ 7,608,538</u>	<u>\$ 36,167,313</u>
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	\$ (25,971,821)	\$ 10,697,475
Depreciation and amortization	23,236,512	23,656,272
Changes in operating assets and liabilities:		
Net patient accounts receivable	3,754,759	(1,227,135)
Net patient accounts receivable-Nursing Homes	1,305,849	(4,901,927)
Supplies	31,723	(17,219)
Prepaid expenses	765,518	234,356
Other receivables and other assets	(65,637)	(279,318)
Estimated amounts due from third-party payers	(11,763,353)	3,336,201
Accrued self-insurance liabilities	(716,368)	545,832
Accrued payroll	763,664	2,182,948
Accounts payable and accrued liabilities	6,209,449	(866,884)
Accounts payable and accrued liabilities-Nursing Homes	(2,759,430)	6,377,841
Payable for pension	(1,441,220)	(1,815,865)
Deferred outflows of resources	1,390,229	2,041,476
Deferred inflows of resources	<u>(386,652)</u>	<u>372,750</u>
Net cash provided by (used in) operating activities	<u>\$ (5,646,778)</u>	<u>\$ 40,336,803</u>
Noncash Investing, Capital and Financing Activities		
Capital assets acquisitions included in accounts payable	<u>\$ 5,606,342</u>	<u>\$ 2,597,999</u>

See notes to financial statements

Midland County Hospital District

Notes to Financial Statements

September 30, 2018 and 2017

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

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.

In April 2017, the District assumed ownership of five nursing homes in West Texas to participate in the Quality Incentive Payment Program or 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 for day to day management of the homes. Under the management agreements, the managers provide all services necessary to operate the homes, including employees, supplies and other operating costs.

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. Separate financial statements are not issued for PFC.

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. Separate financial statements are not issued for PCI.

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,

Midland County Hospital District

Notes to Financial Statements

September 30, 2018 and 2017

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. Separate financial statements are not issued for MTOG.

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. Separate financial statements are not issued for MIMA.

PFC, PCI, MTOG and MIMA 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.

The Foundation distributed approximately \$1.5 million and \$2.1 million to the District for the years ending September 30, 2018 and 2017, 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.

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

Joint Ventures. The District has entered 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 \$1.0 and \$1.2 million for 2018 and 2017, 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. 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 for both 2018 and 2017, and unpaid amounts under these contracts as of September 30, 2018 and 2017 amounted to approximately \$0.7 million and \$3.6 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. There is no outstanding balance on the line of credit

Midland County Hospital District

Notes to Financial Statements

September 30, 2018 and 2017

as of September 30, 2018. The balance on the line of credit was approximately \$2.6 million as of September 30, 2017. Subsequent to year end, CCH ceased operations. As a result, in 2018 the District recognized a loss on a write-off of amounts due, including amounts due on the line of credit, from CCH of approximately \$3.8 million.

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.

The District's interest in joint ventures was approximately \$12.4 million and \$10.1 million at September 30, 2018 and 2017, respectively, which is reflected as a component of other assets in the balance sheets. Income from joint ventures was approximately \$5.9 million and \$4.1 million during the years ended September 30, 2018 and 2017, respectively, which is reflected as a component of other nonoperating revenues in the statements of revenues, expenses and changes in net position.

Separate financial statements are not issued for the joint ventures.

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 distributes a portion of the operating income of certain service lines. The ownership percentages of the District by service are shown below:

	2018	2017
MRI	75%	75%
Diagnostic Imaging	75%	75%
Mammography	75%	75%
Cardiology	75%	75%
Occupational Therapy	50%	50%

During fiscal years ended September 30, 2018 and 2017, the District distributed approximately \$7.2 million and \$7.1 million, respectively, in residual amounts to beneficial owners.

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

Midland County Hospital District

Notes to Financial Statements

September 30, 2018 and 2017

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

Cash Equivalents

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At September 30, 2018 and 2017, cash equivalents consisted primarily of certificates of deposit.

Ad Valorem Taxes

Ad valorem 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. Ad valorem 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 ad valorem tax assessment, less an allowance for uncollectible taxes. Ad valorem taxes are considered delinquent after January 31 of the following year.

Ad valorem taxes were assessed in fiscal years 2018 and 2017 on 100% of appraised property value at the rate of \$0.129994 and \$0.10325 per \$100 valuation, respectively. Approximately 21.8% and 26.1% of the assessed taxes were used for debt service obligations and the remaining 78.2% and 73.9% were used for operations for the years ended September 30, 2018 and 2017, respectively. The District's board has designated that all tax receipts for operations are to be used for providing indigent care services. 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.

Risk Management

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

The District is self-insured for a portion of its exposure to risk of loss from medical malpractice, general and automotive liability, employee health and workers compensation claims. Annual estimated provisions are accrued for the self-insured portion of these risks and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Midland County Hospital District
Notes to Financial Statements
September 30, 2018 and 2017

Investments and Investment Income

Investments in U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in non-negotiable certificates of deposit are carried at amortized cost. The investments in equity investees is reported on the equity method of accounting. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income, realized gains and losses on investments carried at other than fair value and the net change for the year in the fair value of investments carried at fair value.

Patient Accounts Receivable

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

Supplies

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

Capital Assets

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

Land improvements	5-25 years
Buildings and leasehold improvements	25-40 years
Equipment	3-20 years
Computer software	3-5 years

Capital Asset Impairment

The District evaluates capital assets for impairment whenever events or circumstances indicate a significant, unexpected decline in the service utility of a capital asset has occurred. If a capital asset is tested for impairment and the magnitude of the decline in service utility is significant and unexpected, the accumulated depreciation is increased by the amount of the impairment loss. No asset impairment was recognized during the years ended September 30, 2018 and 2017.

Deferred Outflows of Resources

The District reports increases in net position that relate to future periods as deferred outflows of resources in a separate section of its statements of net position.

Midland County Hospital District

Notes to Financial Statements

September 30, 2018 and 2017

At September 30, 2018 and 2017, the District's deferred outflows of resources was comprised of the following:

	<u>2018</u>	<u>2017</u>
Accumulated decrease in fair value of interest rate swap	\$ 287,357	\$ 684,827
Pension related	450,884	1,094,943
Goodwill	<u>5,021,156</u>	<u>5,465,370</u>
	<u>\$ 5,759,397</u>	<u>\$ 7,245,140</u>

In prior years, the goodwill was reported separately in the balance sheets as an other asset. In 2018, the District was required to adopt GASB Statement No. 85, *Omnibus 2017*, which requires that this item now be reported as a deferred outflow of resources.

Compensated Absences

District policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date.

Defined Benefit Pension Plan

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

Deferred Inflows of Resources

The District reports decreases in net position that relate to future periods as deferred inflows of resources in a separate section of its statements of net position. At September 30, 2018 and 2017, the District's deferred inflows of resources was comprised of the following:

	<u>2018</u>	<u>2017</u>
Property taxes under time restrictions	\$ 2,034,164	\$ 2,084,903
Pension related	365,400	446,313
Other	<u>595,000</u>	<u>850,000</u>
	<u>\$ 2,994,564</u>	<u>\$ 3,381,216</u>

Midland County Hospital District

Notes to Financial Statements

September 30, 2018 and 2017

Net Position

Net position of the District is classified in 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 is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the District, including amounts deposited with trustees as required by bond indentures, reduced by the outstanding balances of any related borrowings. Restricted nonexpendable net position consists of noncapital assets that are required to be maintained in perpetuity as specified by parties external to the District, such as permanent endowments. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

Net Patient Service Revenue

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

Charity Care

The District'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 approximately \$8.8 million and \$10.6 million for the years ended September 30, 2018 and 2017, respectively.

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 was approximately \$2.0 and \$2.4 million for the years ended September 30, 2018 and 2017, 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.

Build America Bond Interest Subsidy

The District issued taxable Build America Bonds (BABs) in 2009. Under the BABs program, the U.S. Treasury pays 35% of the interest as a subsidy to the issuer. The District records the interest subsidy received or receivable from the U.S. Treasury as nonoperating revenue when the District has met all of the eligibility criteria to receive the subsidy. The District recorded approximately \$2.1 million and \$2.2 million of nonoperating revenue in 2018 and 2017, respectively, for the BABs interest subsidy.

Midland County Hospital District

Notes to Financial Statements

September 30, 2018 and 2017

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 had no tax liability at September 30, 2018 and a tax liability of \$1.4 million at September 30, 2017.

Revisions

Certain immaterial revisions have been made to the 2017 financial statements for changes in classification of operating and nonoperating revenues. These revisions reduced previously reported operating income and cash provided by operations and increased previously reported nonoperating revenues and reduced cash used in investing activities. These revisions did not have a significant impact on the financial statement line items impacted.

Note 2: Net Patient Service Revenue

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

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

Medicaid. Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective payment system. Outpatient and physician services are reimbursed under a mixture of fees schedules and cost reimbursement. The District is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicaid administrative contractor.

Approximately 36% and 33% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2018 and 2017, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

Midland County Hospital District

Notes to Financial Statements

September 30, 2018 and 2017

Supplemental Medicaid Funding Revenue

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

On December 12, 2011, the United States Department of Health and Human Services (HHSC) approved a Medicaid section 1115(a) demonstration entitled “Texas Health Transformation and Quality Improvement Program” (the Waiver) that allowed the state to expand Medicaid managed care while preserving hospital funding, provides incentive payments for health care improvements and directs more funding to hospitals that serve large numbers of uninsured patients. The Waiver established two pools, an Uncompensated Care Pool (UC Pool) to offset the cost of uncompensated care and a Delivery System Reform Initiative Payment Pool (DSRIP) as incentive payments for developing programs and strategies supporting hospitals’ efforts to improve access to health care; improve quality and outcomes of care, improve efficiencies of care provided; and to improve the patient experience by managing the health of patients and families served. DSRIP payments are made for system improvements identified in Regional Healthcare Partnerships (RHP) delivery system reform and improvement plans (RHP Plan) led by public hospitals such as the District or governmental entities that will provide the state share of Waiver pool funds. The revenue from the two funding pools is recognized as earned throughout the related demonstration year. Funding from the UC Pool is limited to actual uncompensated care costs, as defined by the Waiver.

The Waiver was originally effective from December 12, 2011 to September 30, 2016 and extended through December 2017 as HHSC and the Centers for Medicare and Medicaid Services (CMS) negotiated a longer term extension. On December 21, 2017, HHSC received an approved extension from CMS for the period of January 1, 2018 through September 30, 2022. Among other changes, the approved plan limits UC Pool funding to the cost of providing charity care and requires a phase out of DSRIP over the five year period. The impact of these changes has not yet been determined, but could have an adverse impact on the District’s operating results.

The District participates in the Network Access Improvement Program (NAIP). The NAIP aims to increase the availability and effectiveness of primary care for Medicaid beneficiaries by providing incentive payments to participating Health Related Institutions (HRIs). Participation is voluntary and requires HRIs to create a proposal in partnership with a managed care organization (MCO). When the proposal is approved by HHSC, the costs associated with the incentive payments are added to the monthly capitation rates paid to the MCO and the MCOs are responsible for making payments to the HRIs, such as the District.

During 2018, the District began to participate in the Uniform Hospital Rate Increase Program (UHRIP). Under UHRIP, HHSC may direct managed care organizations in a service delivery area to provide a uniform percentage rate increase to all hospitals within a particular class of hospitals. UHRIP revenue is recognized as part of net patient service revenue as part of the payment on patient claims.

Midland County Hospital District
Notes to Financial Statements
September 30, 2018 and 2017

During 2017, the District began participating the in the Quality Improvement Payment Program (QIPP). QIPP is designed to assist nursing facilities serving indigent patients by providing funding to support increased access to health care into the community. It is also designed to allow participating providers to receive improvements in up to four predetermined quality measures.

Revenue recognized from all programs is included as a component of net patient service revenue in the statements of revenues, expenses and changes in net position as follows:

	2018	2017
DSH	\$ 8,684,254	\$ 8,480,127
UC Pool	11,213,760	7,514,806
DSRIP	9,651,164	10,496,397
NAIP	5,424,786	5,840,283
QIPP	1,619,988	—
	\$ 36,593,952	\$ 32,331,613

Accounts receivable under these programs was approximately \$19.1 million and \$9.4 million at September 30, 2018 and 2017, respectively, and are included in estimated amounts due from third-party payers.

The District realized a savings in medical service costs of approximately \$39.1 million and \$34.2 million in 2018 and 2017, respectively. The District incurred increased costs to supplement the state’s funding for the affiliated providers of approximately \$16.1 million and \$25.8 million in 2018 and 2017, respectively. The supplement to the state’s funding is recorded as contributions to government programs in the statements of revenues, expenses and changes in net position.

The programs described above are subject to review and scrutiny by both the Texas Legislature and the CMS and the programs could be modified or terminated based on new legislation or regulation in future periods.

Note 3: Deposits

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

State law requires collateralization of all deposits with federal depository insurance or other qualified investments. At September 30, 2018, approximately \$1.2 million of the District’s bank balances were uninsured and uncollateralized. At September 30, 2017, all of the District’s bank balances were either insured or collateralized.

Midland County Hospital District
Notes to Financial Statements
September 30, 2018 and 2017

Note 4: Patient Accounts Receivable

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

	2018	2017
Medicare	\$ 6,703,124	\$ 5,022,520
Medicaid	1,629,836	3,443,666
Other third-party payers	29,485,969	21,873,397
Patients	52,820,342	36,878,773
	90,639,271	67,218,356
Less allowance for uncollectible accounts	53,303,504	26,127,830
	\$ 37,335,767	\$ 41,090,526

Note 5: Capital Assets

Capital assets activity for the years ended September 30 was:

	2018			
	Beginning Balance	Additions	Retirements and Transfers	Ending Balance
Nondepreciable assets:				
Land	\$ 7,936,484	\$ -	\$ -	\$ 7,936,484
Construction-in-progress	19,570,436	9,800,642	(28,414,164)	956,914
	27,506,920	9,800,642	(28,414,164)	8,893,398
Depreciable assets:				
Land improvements	2,462,883	-	-	2,462,883
Buildings	259,911,340	232,342	5,657,931	265,801,613
Furniture, fixtures and equipment	219,438,030	19,946,841	22,669,002	262,053,873
	481,812,253	20,179,183	28,326,933	530,318,369
Less accumulated depreciation:				
Land improvements	(1,072,702)	(28,196)	202,079	(898,819)
Buildings	(111,754,978)	(11,287,010)	(6,322,194)	(129,364,182)
Furniture, fixtures and equipment	(164,097,102)	(11,477,092)	6,166,705	(169,407,489)
	(276,924,782)	(22,792,298)	46,590	(299,670,490)
Depreciable assets, net	204,887,471	(2,613,115)	28,373,523	230,647,879
Capital assets, net	\$ 232,394,391	\$ 7,187,527	\$ (40,641)	\$ 239,541,277

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	2017			
	Beginning Balance	Additions	Retirements and Transfers	Ending Balance
Nondepreciable assets:				
Land	\$ 7,936,484	\$ -	\$ -	\$ 7,936,484
Construction-in-progress	6,594,121	15,685,390	(2,709,075)	19,570,436
	<u>14,530,605</u>	<u>15,685,390</u>	<u>(2,709,075)</u>	<u>27,506,920</u>
Depreciable assets:				
Land improvements	2,462,883	-	-	2,462,883
Buildings	262,191,340	-	(2,280,000)	259,911,340
Furniture, fixtures and equipment	211,080,472	5,648,483	2,709,075	219,438,030
	<u>475,734,695</u>	<u>5,648,483</u>	<u>429,075</u>	<u>481,812,253</u>
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	(151,209,730)	(12,887,372)	-	(164,097,102)
	<u>(253,815,508)</u>	<u>(23,194,774)</u>	<u>85,500</u>	<u>(276,924,782)</u>
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>

Note 6: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at September 30 consisted of:

	<u>2018</u>	<u>2017</u>
Payables to supplies and contractors	\$ 19,681,556	\$ 14,189,892
Payables for capital assets	5,606,342	2,597,999
Payable for federal income tax	-	1,438,020
Payable for refund on patient accounts	1,981,225	865,970
	<u>\$ 27,269,123</u>	<u>\$ 19,091,881</u>

Note 7: Risk Management

Medical Malpractice and General Liability Risks

The District is self-insured for medical malpractice and general liability claims. The District's maximum liability for professional and general liability claims as a governmental unit under the Tort Claims Act is generally \$100,000 per individual and \$300,000 per occurrence.

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Losses from asserted and unasserted claims identified under the District's incident reporting system are accrued based on estimates that incorporate the District's past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. It is reasonably possible that the District's estimate of losses will change by a material amount in the near term.

Employee Health Claims

Substantially all of the District's employees and their dependents are eligible to participate in the District's employee health insurance plan. Commercial stop-loss insurance coverage is purchased for claims in excess of \$350,000. A provision is accrued for self-insured employee 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 estimate will change by a material amount in the near term.

Workers' Compensation Claims

The District is self-insured for workers' compensation claims. A provision is accrued for self-insured worker's compensation 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 estimate will change by a material amount in the near term.

Activity in the District's self-insured risk liabilities during 2018 and 2017 is summarized as follows:

	2018		
	Medical Malpractice	Employee Health	Workers Compensation
Balance, beginning of year	\$ 479,529	\$ 1,715,835	\$ 2,288,283
Current year claims incurred and changes in estimates for claims incurred in prior years	(15,210)	11,852,922	83,426
Claims and expenses paid	<u>-</u>	<u>(12,554,079)</u>	<u>(317,692)</u>
Balance end of year	<u>\$ 464,319</u>	<u>\$ 1,014,678</u>	<u>\$ 2,054,017</u>
Due within one year	\$ 68,235	\$ 1,014,678	\$ 735,801
Due in subsequent years	<u>396,084</u>	<u>-</u>	<u>1,318,216</u>
	<u>\$ 464,319</u>	<u>\$ 1,014,678</u>	<u>2,054,017</u>
	2017		
	Medical Malpractice	Employee Health	Workers Compensation
Balance, beginning of year	\$ 472,599	\$ 1,278,202	\$ 2,294,376
Current year claims incurred and changes in estimates for claims incurred in prior years	54,691	15,271,245	414,777
Claims and expenses paid	<u>(47,761)</u>	<u>(14,833,612)</u>	<u>(420,870)</u>
Balance end of year	<u>\$ 479,529</u>	<u>\$ 1,715,835</u>	<u>\$ 2,288,283</u>
Due within one year	\$ 106,245	\$ 1,715,835	\$ 1,441,919
Due in subsequent years	<u>373,284</u>	<u>-</u>	<u>846,364</u>
	<u>\$ 479,529</u>	<u>\$ 1,715,835</u>	<u>2,288,283</u>

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The liabilities for self-insured risks are recognized as accrued self-insurance liabilities in the balance sheets.

Note 8: Long-Term Obligations

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

	2018				
	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Long-term debt					
Notes payable	\$ 71,833,088	\$ 21,800,000	\$ (28,649,958)	\$ 64,983,130	\$ 7,992,057
Capital lease obligations	11,989	-	(11,989)	-	-
	<u>71,845,077</u>	<u>21,800,000</u>	<u>(28,661,947)</u>	<u>64,983,130</u>	<u>7,992,057</u>
General obligation bonds payable					
Series B 2009	98,380,000	-	(2,860,000)	95,520,000	2,960,000
	<u>\$ 170,225,077</u>	<u>\$ 21,800,000</u>	<u>\$ (31,521,947)</u>	<u>\$ 160,503,130</u>	<u>\$ 10,952,057</u>
	2017				
	Beginning Balance	Additions	Reductions	Ending Balance	Amount Due Within One Year
Long-term debt					
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
	<u>72,783,054</u>	<u>20,500,000</u>	<u>(21,437,977)</u>	<u>71,845,077</u>	<u>8,076,287</u>
General obligation bonds payable					
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>
	<u>\$ 174,924,512</u>	<u>\$ 20,500,000</u>	<u>\$ (25,199,435)</u>	<u>\$ 170,225,077</u>	<u>\$ 10,936,287</u>

Notes Payable

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 remaining annual principal installments ranging from \$2,644,923 to \$4,733,361, 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, 2018 and 2017 was 2.80% and 2.13%, respectively. Included in non-current cash and investments restricted was approximately \$1,500,000 at September 30, 2018 and 2017, 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, and during 2013, the agreement was modified to reduce the interest rate to 3.99%. Beginning July 18, 2019, the interest rate will be the greater of 3.99% or the prime rate plus 0.75%. Interest and principal is due in monthly payments of \$73,472 through July 17, 2037. The note is secured by the Medical Office Building.

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During 2009, the District also entered into a note payable with Prosperity Bank, and during 2013, the agreement was modified to reduce the interest rate to 3.99%. Beginning July 18, 2019, the interest rate will be the greater of 3.99% or the prime rate plus 0.75%. 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 must be renewed on an annual basis and is secured by certificates of deposit. The line of credit bore interest at a rate of 2.75% during 2018 and 2017. There were no amounts due under the line of credit at September 30, 2018. The District has also obtained an unsecured line of credit for up to \$10 million. This line of credit must also be renewed on an annual basis and bears interest at the prime rate (5.25% at September 30, 2018). In January 2019, the lines of credit were renewed for another year at the same terms.

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 cannot exceed \$40,000,000, of which \$3,000,000 has been drawn down for the sterile processing project costs as of September 30, 2018. 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 a rate of 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 0.75%. The final maturity date is May 1, 2039.

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 cannot exceed \$40,000,000, of which \$15,500,000 has been drawn down for an electronic medical records system as of September 30, 2018. 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 a rate of 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 0.75%. The final maturity date is July 1, 2031.

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The maturities of notes payable as of September 30, 2018, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2019	\$ 7,992,057	\$ 2,038,873	\$ 10,030,930
2020	8,364,131	1,714,486	10,078,617
2021	18,989,781	1,243,292	20,233,073
2022	515,118	1,122,876	1,637,994
2023	586,051	1,101,628	1,687,679
2024 to 2028	8,198,146	4,910,441	13,108,587
2029 to 2033	15,715,994	2,155,137	17,871,131
2034 to 2038	4,372,045	426,674	4,798,719
2039	249,807	10,873	260,680
	<u>\$ 64,983,130</u>	<u>\$ 14,724,280</u>	<u>\$ 79,707,410</u>

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 Series A 2009 bonds were tax exempt and were 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 Series A 2009 bonds were fully repaid in 2017.

The Series B 2009 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 2009 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 Series B 2009 have a Build America Bonds tax rebate provision from the federal government effectively reducing the interest rate of the bonds by 1.54% from the stated rate. During 2018 and 2017, the tax rebate provision was reduced by 8.7% due to federally mandated sequestration adjustments. The District earned rebates of approximately \$2.1 million and \$2.2 million for the years ending September 30, 2018 and 2017, respectively.

The Build America Bonds credit that 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 balance sheet. This amount was utilized on payments due in 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.

Midland County Hospital District

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The maturities of the general obligation bond issues as of September 30, 2018 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>BAB Subsidy</u>	<u>Total Debt Service</u>
2019	\$ 2,960,000	\$ 6,025,367	\$ (2,088,074)	\$ 6,897,293
2020	3,065,000	5,866,859	(2,030,853)	6,901,006
2021	3,180,000	5,695,066	(1,969,253)	6,905,813
2022	3,305,000	5,512,057	(1,903,822)	6,913,235
2023	3,435,000	5,318,549	(1,832,909)	6,920,640
2024 to 2028	19,465,000	23,137,128	(7,936,022)	34,666,106
2029 to 2033	23,930,000	16,397,641	(5,537,483)	34,790,158
2034 to 2038	29,500,000	8,009,428	(2,553,951)	34,955,477
2039	6,680,000	430,192	(94,105)	7,016,087
	<u>\$ 95,520,000</u>	<u>\$ 76,392,287</u>	<u>\$ (25,946,472)</u>	<u>\$ 145,965,815</u>

Note 9: 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 \$10,207,367 and \$13,003,185 at September 30, 2018 and 2017, 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.

Fair Value

As of September 30, 2018 and 2017, the agreement had a negative fair value of \$287,357 and \$684,827, 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 liability in the District's balance sheet. As of October 1, 2011, the swap is being accounted for as an effective hedging instrument and the offsetting

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balance is reflected as a deferred outflow on the District's balance sheet. The change in fair value of the swap of \$397,470 and \$552,184 for the years ended September 30, 2018 and 2017, respectively, is shown as an adjustment to the carrying amount of the related deferred outflow on the balance sheet.

Credit Risk

As of September 30, 2018 and 2017, 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, 2018 and 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.

Swap Payments and Associated Debt

Future debt service requirements of the variable-rate note and the future net swap payments as of September 30, 2018, 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		
	Principal	Interest	Swap, Net		Total
2019	\$ 2,644,923	\$ 241,737	\$ 191,663	\$	3,078,323
2020	2,829,083	156,781	124,305		3,110,169
2021	4,733,361	42,007	33,306		4,808,674
	\$ 10,207,367	\$ 440,525	\$ 349,274	\$	10,997,166

Note 10: Pension Plans

Defined Benefit Plans

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, 2018 and 2017, the District contributed \$6,052 and \$5,828 to the plan, respectively, and there are no amounts outstanding.

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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, 2018 and 2017, the District has outstanding liabilities of \$253,165 and \$500,971, respectively, for the plan that are reported in accrued payroll on the balance sheets.

During the years ended September 30, 2018 and 2017, employee and District contributions to the plan were as follows:

	<u>2018</u>	<u>2017</u>
Participant salaries	\$ 57,212,344	\$ 57,288,559
Contributions by employees	\$ 4,260,642	\$ 4,260,421
Percent of participant salaries	7.45%	7.44%
Contributions by the District	\$ 2,526,240	\$ 2,544,145
Percent of participant salaries	4.42%	4.44%

Defined Benefit Plan

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.

From January 1, 2005 through the payroll period ended June 19, 2010, eligible participants who opted to have continuing benefit accruals and less than 20 years of benefit accrual service were required to make employee contributions of 4% of eligible salary; employees with years of benefit accrual service of 20 to 29 years were required to make employee contributions of 3% of eligible salary; and employees with 30 years or more of benefit accrual service were 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

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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. The plan does not issue a stand-alone financial report.

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% the employee’s highest 5 year 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.

The employees covered by the Plan at September 30, 2018 and 2017, are:

	2018	2017
Inactive employees or beneficiaries currently receiving benefits	344	320
Inactive employees entitled to but not yet receiving benefits	349	367
Active employees	222	235
	915	922

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 and contributed that amount in 2018 and 2017. As of 2010, no contributions by employees are required under the Plan.

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Net Pension Liability

The District's net pension liability was measured as of September 30, 2018 and 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2018 and 2017, respectively, updated through the measurement dates of September 30, 2018 and 2017, respectively.

The total pension liability in the September 30, 2018 and 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 were based on the Society of Actuaries RP-2014 Mortality Tab, projected from the 2006 base year with Projection Scale MP-2017.

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, 2018, 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%	10.5%
Fixed	30%	5.4%
International	25%	5.4%
Real Estate and other	10%	2.1%
Total	<u>100%</u>	

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September 30, 2018 and 2017

Discount Rate

The discount rate used to measure the total pension liability was 8% for both the years ended September 30, 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at an annual rate of \$2,500,000. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Changes in the total pension liability, plan fiduciary net position and net pension liability are as follows:

	2018		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, beginning of year	\$ 62,633,864	\$ 38,103,629	\$ 24,530,235
Changes for the year:			
Interest	4,837,438	-	4,837,438
Differences between expected and actual experience	(954,754)	-	(954,754)
Contributions - employer	-	2,500,000	(2,500,000)
Net investment income	-	2,823,904	(2,823,904)
Benefits payments, including refunds of employee contributions	(4,143,522)	(4,143,522)	-
Net changes	(260,838)	1,180,382	(1,441,220)
Balance, end of year	\$ 62,373,026	\$ 39,284,011	\$ 23,089,015

Midland County Hospital District

Notes to Financial Statements

September 30, 2018 and 2017

	2017		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, beginning of year	\$ 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 in 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)	-
Net changes	107,340	1,923,205	(1,815,865)
Balance, end of year	\$ 62,633,864	\$ 38,103,629	\$ 24,530,235

The net pension liability of the District has been calculated using a discount rate of 8%. The following presents the net pension liability using a discount rate 1% higher and 1% lower than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
District's net pension liability	\$ 29,044,084	\$ 23,089,015	\$ 17,992,273

Midland County Hospital District

Notes to Financial Statements

September 30, 2018 and 2017

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

For the years ended September 30, 2018 and 2017, the District recognized pension expense of \$1,621,926 and \$2,292,676, respectively. At September 30, 2018 and 2017, the District reported deferred outflows or resources and deferred inflows of resources related to pensions from the following sources:

	2018	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ -	\$ 365,400
Net difference between projected and actual earnings on plan investments	450,884	-
	\$ 450,884	\$ 365,400
	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	1,054,038	-
	\$ 1,094,943	\$ 446,313

Amounts reported as deferred outflows of resources and deferred inflows of resources at September 30, 2018, related to pensions will be recognized in pension expense as follows:

Year ended September 30:

2019	\$ 315,067
2020	(195,879)
2021	(58,671)
2022	24,967

Midland County Hospital District

Notes to Financial Statements

September 30, 2018 and 2017

Pension Plan Fiduciary Net Position

As of September 30, 2018 and 2017, the Plan's fiduciary net position was comprised of the following:

	<u>2018</u>	<u>2017</u>
Money market mutual fund	\$ 1,251,232	\$ 625,010
Mutual funds - equities	13,869,510	13,510,340
Mutual funds - fixed income	10,733,921	10,646,780
Mutual funds - international	11,484,006	9,467,018
Mutual funds - other	1,945,342	3,854,481
	<u> </u>	<u> </u>
Total plan fiduciary net position	<u>\$ 39,284,011</u>	<u>\$ 38,103,629</u>

Investment Policy – Investment policy decisions are established and maintained by the District's Board.

The primary goal of a pension fund is to help pay the cost of the pension plan while providing adequate security to meet the benefits promised under the pension plan. As a consequence, two important dimensions of a pension plan's investment program are expected return and expected risk.

The pension plan investments are diversified among asset classes, recognizing that there is a relationship between the level of risk assumed in an investment program and the level of return that should be expected. Appropriate diversification better enables balance of risk and return.

Investment Rate of Return – The annual money-weighted rate of return on pension plan investments, net of expenses, which expresses net investment performance adjusted for changing amounts actually invested each month was approximately 7.7% for the 12 months ended September 30, 2018.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The Plan does not have a separate policy covering credit risk.

Custodial Credit Risk – For an investment, custodial credit risk is the risk that in the event of the failure of the counterparty the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. The Plan's investment policy does not address how investments are to be held.

Concentration of Credit Risk – The Plan does not have a policy to limit its holdings in any one issuer. At September 30, 2018 and 2017, all of the Plan's investments were held through the Plan's investment manager, Transamerica.

These investments are all classified within Level 1 of the valuation hierarchy, and as mutual funds, mature in less than one year. Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows.

Midland County Hospital District
Notes to Financial Statements
September 30, 2018 and 2017

Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy. The Plan did not hold any Level 2 or Level 3 securities at September 30, 2018 and 2017.

At September 30, 2018 and 2017, the Plan's investments had the following maturities:

	2018				
	Maturities in Years				
	Fair Value	Less than 1	1-5	6-10	More than 10
Money market mutual fund	\$ 1,251,232	\$ 1,251,232	-	-	-
Mutual funds - equities	13,869,510	13,869,510	-	-	-
Mutual funds - fixed income	10,733,921	3,991,233	2,479,659	1,305,883	2,957,146
Mutual funds - international	11,484,006	11,484,006	-	-	-
Mutual funds - other	1,945,342	1,945,342	-	-	-
	<u>\$ 39,284,011</u>	<u>\$ 32,541,323</u>	<u>\$ 2,479,659</u>	<u>\$ 1,305,883</u>	<u>\$ 2,957,146</u>
	2017				
	Maturities in Years				
	Fair Value	Less than 1	1-5	6-10	More than 10
Money market mutual fund	\$ 625,010	\$ 625,010	-	-	-
Mutual funds - equities	13,510,340	13,510,340	-	-	-
Mutual funds - fixed income	10,646,780	3,956,680	2,461,219	1,295,142	2,933,739
Mutual funds - international	9,467,018	9,467,018	-	-	-
Mutual funds - other	3,854,481	3,854,481	-	-	-
	<u>\$ 38,103,629</u>	<u>\$ 31,413,529</u>	<u>\$ 2,461,219</u>	<u>\$ 1,295,142</u>	<u>\$ 2,933,739</u>

Note 11: Contingencies

In the normal course of business, the District is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the District's self-insurance program (discussed elsewhere in these notes) or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The District evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Note 12: 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 approximately \$1,100,000 for both the years ended September 30, 2018 and 2017.

Midland County Hospital District
Notes to Financial Statements
September 30, 2018 and 2017

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, 2018 and 2017, the Foundation contributed approximately \$1.5 million and \$2.1 million, respectively, to the District for capital projects and other operating purposes.

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

	<u>2018</u>	<u>2017</u>
Restricted - expendable		
Assets available for capital purchases	\$ 3,480,475	\$ 3,470,247
Assets available to fund specific hospital operations	6,946,649	5,503,066
Assets available for education and training	<u>1,936,960</u>	<u>1,637,512</u>
	<u>12,364,084</u>	<u>10,610,825</u>
Restricted - nonexpendable		
Income available for capital acquisitions	11,826,362	11,397,594
Income available to fund specific hospital operations	35,796,263	35,958,857
Income available for education and training	<u>526,250</u>	<u>510,720</u>
	<u>48,148,875</u>	<u>47,867,171</u>
	<u>\$ 60,512,959</u>	<u>\$ 58,477,996</u>

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.

Midland County Hospital District
Notes to Financial Statements
September 30, 2018 and 2017

A summary of beneficial interests in trusts include:

	<u>2018</u>	<u>2017</u>
Restricted - expendable		
Assets available for unrestricted use	\$ 409,604	\$ 225,063
Restricted - nonexpendable		
Income available for capital acquisitions	333,949	333,721
Income available for hospital operations, education and training	<u>24,879,433</u>	<u>25,744,821</u>
	<u>\$ 25,622,986</u>	<u>\$ 26,303,605</u>

Note 13: Foundation Investments

Investments at September 30, 2018 and 2017 are comprised of the following with maturities of less than one year:

	<u>2018</u>	<u>2017</u>
Money market and mutual funds	\$ 19,408,624	\$ 29,746,096
Equity securities	<u>14,254,210</u>	<u>-</u>
	<u>33,662,834</u>	<u>29,746,096</u>

Investment return is comprised of the following for the years ended September 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Investment income	\$ 659,901	\$ 621,382
Net appreciation on fair value of investments	<u>1,793,790</u>	<u>2,322,250</u>
	<u>\$ 2,453,691</u>	<u>\$ 2,943,632</u>

Midland County Hospital District
Notes to Financial Statements
September 30, 2018 and 2017

Note 14: Condensed Combining Component Unit Information

The following tables include condensed combining balance sheet information for the District and its blended component units as of September 30, 2018 and 2017.

	2018				2017			
	Midland County Hospital District	501(a) Entities	Nursing Homes	Combined	Midland County Hospital District	501(a) Entities	Nursing Homes	Combined
Assets and Deferred Outflows of Resources								
Current assets	\$ 94,960,085	\$ 4,681,725	\$ 3,618,411	\$ 103,260,221	\$ 125,065,908	\$ 3,534,116	\$ 6,377,841	\$ 134,977,865
Noncurrent cash and investments	3,786,390	-	-	3,786,390	3,799,983	-	-	3,799,983
Capital assets, net of accumulated depreciation	238,459,352	1,081,925	-	239,541,277	230,820,593	1,573,798	-	232,394,391
Other assets	16,696,587	7,524	-	16,704,111	12,423,837	7,523	-	12,431,360
Total assets	353,902,414	5,771,174	3,618,411	363,291,999	372,110,321	5,115,437	6,377,841	383,603,599
Deferred outflows of resources	5,759,397	-	-	5,759,397	7,245,140	-	-	7,245,140
Total assets and deferred outflows of resources	\$ 359,661,811	\$ 5,771,174	\$ 3,618,411	\$ 369,051,396	\$ 379,355,461	\$ 5,115,437	\$ 6,377,841	\$ 390,848,739
Liabilities and Deferred Inflows of Resources								
Current liabilities	\$ 47,757,970	\$ 7,616,497	\$ 3,618,411	\$ 58,992,878	\$ 42,118,568	\$ 4,807,462	\$ 6,377,841	\$ 53,303,871
Net pension liability	23,089,015	-	-	23,089,015	24,530,235	-	-	24,530,235
Interest rate swap	287,357	-	-	287,357	684,827	-	-	684,827
Accrued self-insurance liabilities	1,714,300	-	-	1,714,300	1,219,648	-	-	1,219,648
Long-term debt	56,991,073	-	-	56,991,073	63,768,790	-	-	63,768,790
General obligation bonds payable	92,560,000	-	-	92,560,000	95,520,000	-	-	95,520,000
Total liabilities	222,399,715	7,616,497	3,618,411	233,634,623	227,842,068	4,807,462	6,377,841	239,027,371
Deferred inflows of resources	2,994,564	-	-	2,994,564	3,381,216	-	-	3,381,216
Net Position								
Net investment in capital assets	96,061,943	1,081,925	-	97,143,868	86,402,944	1,561,810	-	87,964,754
Restricted - expendable for capital assets	2,372,714	-	-	2,372,714	10,825,255	-	-	10,825,255
Restricted - expendable for debt service	4,864,363	-	-	4,864,363	11,812,888	-	-	11,812,888
Unrestricted	30,968,512	(2,927,248)	-	28,041,264	39,091,090	(1,253,835)	-	37,837,255
Total net position	134,267,532	(1,845,323)	-	132,422,209	148,132,177	307,975	-	148,440,152
Total liabilities, deferred inflows of resources and net position	\$ 359,661,811	\$ 5,771,174	\$ 3,618,411	\$ 369,051,396	\$ 379,355,461	\$ 5,115,437	\$ 6,377,841	\$ 390,848,739

Midland County Hospital District
Notes to Financial Statements
September 30, 2018 and 2017

The following tables include condensed 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, 2018 and 2017.

	2018				2017			
	Midland County Hospital District	501(a) Entities	Nursing Homes	Combined	Midland County Hospital District	501(a) Entities	Nursing Homes	Combined
Operating revenues	\$ 242,674,079	\$ 27,833,018	\$ 24,774,072	\$ 295,281,169	\$ 259,857,877	\$ 34,816,862	\$ 12,973,529	\$ 307,648,268
Operating expenses	253,955,356	42,523,562	24,774,072	321,252,990	240,084,919	43,892,345	12,973,529	296,950,793
Operating income (loss)	(11,281,277)	(14,690,544)	-	(25,971,821)	19,772,958	(9,075,483)	-	10,697,475
Nonoperating revenues (expenses)	3,214,696	12,537,246	-	15,751,942	(3,027,590)	7,595,485	-	4,567,895
Excess (deficiency) of revenues over expenses before distribution to other beneficial owners of partnership and capital grants and gifts	(8,066,581)	(2,153,298)	-	(10,219,879)	16,745,368	(1,479,998)	-	15,265,370
Distribution to other beneficial owners of partnership	(7,283,040)	-	-	(7,283,040)	(7,095,586)	-	-	(7,095,586)
Capital grants and gifts	1,484,976	-	-	1,484,976	2,088,922	-	-	2,088,922
Change in net position	(13,864,645)	(2,153,298)	-	(16,017,943)	11,738,704	(1,479,998)	-	10,258,706
Net position - beginning of year	148,132,177	307,975	-	148,440,152	136,393,473	1,787,973	-	138,181,446
Net position - end of year	\$ 134,267,532	\$ (1,845,323)	\$ -	\$ 132,422,209	\$ 148,132,177	\$ 307,975	\$ -	\$ 148,440,152

Midland County Hospital District
Notes to Financial Statements
September 30, 2018 and 2017

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, 2018 and 2017.

	2018				2017			
	Midland County Hospital District	501(a) Entities	Nursing Homes	Combined	Midland County Hospital District	501(a) Entities	Nursing Homes	Combined
Net cash provided by (used in) operating activities	\$ 8,775,956	\$ (12,969,153)	\$ (1,453,581)	\$ (5,646,778)	\$ 42,238,279	\$ (3,377,390)	\$ 1,475,914	\$ 40,336,803
Net cash provided by (used in) noncapital financing activities	9,080,761	-	-	9,080,761	(3,538,251)	-	-	(3,538,251)
Net cash provided by (used in) capital and related financing activities	(33,651,679)	(116,835)	-	(33,768,514)	(21,284,720)	(134,238)	-	(21,418,958)
Net cash provided by (used in) investing activities	(10,696,157)	12,471,913	-	1,775,756	(11,602,296)	4,021,762	-	(7,580,534)
Net increase (decrease) in cash and cash equivalents	(26,491,119)	(614,075)	(1,453,581)	(28,558,775)	5,813,012	510,134	1,475,914	7,799,060
Cash and cash equivalents, beginning of year	33,318,946	1,372,453	1,475,914	36,167,313	27,505,934	862,319	-	28,368,253
Cash and cash equivalents, end of year	<u>\$ 6,827,827</u>	<u>\$ 758,378</u>	<u>\$ 22,333</u>	<u>\$ 7,608,538</u>	<u>\$ 33,318,946</u>	<u>\$ 1,372,453</u>	<u>\$ 1,475,914</u>	<u>\$ 36,167,313</u>

Required Supplementary Information

Midland County Hospital District

Schedule of Changes in the Net Pension Liability and Related Ratios

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Total pension liability				
Interest	\$ 4,837,438	\$ 4,840,667	\$ 4,803,747	\$ 4,497,604
Differences between expected and actual experience	(954,754)	94,028	(424,609)	(20,677)
Changes of assumptions	-	(1,025,940)	(111,971)	2,786,166
Benefit payments, including refunds of employee contributions	(4,143,522)	(3,801,415)	(3,626,455)	(3,347,151)
Net change in total pension liability	(260,838)	107,340	640,712	3,915,942
Total pension liability—beginning	<u>62,633,864</u>	<u>62,526,524</u>	<u>61,885,812</u>	<u>57,969,870</u>
Total pension liability—ending (a)	<u><u>\$ 62,373,026</u></u>	<u><u>\$ 62,633,864</u></u>	<u><u>\$ 62,526,524</u></u>	<u><u>\$ 61,885,812</u></u>
Plan fiduciary net position				
Contributions—employer	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000
Net investment income	2,823,904	3,224,620	3,330,578	(1,539,128)
Benefit payments, including refunds of employee contributions	(4,143,522)	(3,801,415)	(3,626,455)	(3,347,151)
Net change in plan fiduciary net position	1,180,382	1,923,205	2,204,123	(2,386,279)
Plan fiduciary net position—beginning	<u>38,103,629</u>	<u>36,180,424</u>	<u>33,976,301</u>	<u>36,362,580</u>
Plan fiduciary net position—ending (b)	<u><u>\$ 39,284,011</u></u>	<u><u>\$ 38,103,629</u></u>	<u><u>\$ 36,180,424</u></u>	<u><u>\$ 33,976,301</u></u>
Net pension liability—ending (a) – (b)	<u><u>\$ 23,089,015</u></u>	<u><u>\$ 24,530,235</u></u>	<u><u>\$ 26,346,100</u></u>	<u><u>\$ 27,909,511</u></u>
Plan fiduciary net position as a percentage of the total pension liability	62.98%	60.84%	57.86%	54.90%
Covered-employee payroll	N/A	N/A	N/A	N/A
Net pension liability as a percentage of covered-employee payroll	N/A	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 allowed 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 Schedule of Employer Contributions

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 1,842,470	\$ 1,950,036	\$ 1,996,818	\$ 1,785,418
Contributions in relation to the actuarially determined contribution	2,500,000	2,500,000	2,500,000	2,500,000
Contribution deficiency (excess)	<u>\$ (657,530)</u>	<u>\$ (549,964)</u>	<u>\$ (503,182)</u>	<u>\$ (714,582)</u>
Covered-employee payroll	N/A	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	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 investment expense, including inflation
Retirement age	65
Mortality	Static mortality table in accordance with IRS Regulation 1.430(h)(3)-1 for the valuation year
Other information	Plan is frozen to new participants effective December 31, 2005

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 Balance Sheets

September 30, 2018 and 2017

	The District		Premier Family Care		Permian Cardiology, Inc.		Midland, Texas Orthopedic Group, Inc.		Midland Inpatient Medical Associates		Nursing Homes		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Assets and Deferred Outflows of Resources														
Current assets														
Cash and cash equivalents	\$ 1,987,090	\$ 20,029,531	\$ 585,941	\$ 1,137,059	\$ 85,674	\$ 113,543	\$ 41,920	\$ 35,528	\$ 44,843	\$ 86,323	\$ -	\$ -	\$ 2,745,468	\$ 21,401,984
Cash and cash equivalents - Nursing Homes	-	-	-	-	-	-	-	-	-	-	22,333	1,475,914	22,333	1,475,914
Cash designated for capital projects	2,372,714	10,825,255	-	-	-	-	-	-	-	-	-	-	2,372,714	10,825,255
Short-term investments	8,228,819	7,921,865	-	-	-	-	-	-	-	-	-	-	8,228,819	7,921,865
Property tax receivable, net	920,770	845,492	-	-	-	-	-	-	-	-	-	-	920,770	845,492
Patient accounts receivable, less allowance for doubtful accounts	34,831,605	39,573,155	840,040	587,411	286,912	294,140	966,754	697,238	410,456	(61,418)	-	-	37,335,767	41,090,526
Patient accounts receivable-Nursing Homes, net	-	-	-	-	-	-	-	-	-	-	3,596,078	4,901,927	3,596,078	4,901,927
Supplies	8,050,278	8,275,496	-	-	-	-	371,915	178,420	-	-	-	-	8,422,193	8,453,916
Prepaid expenses	1,769,298	2,604,627	172,697	146,767	(28,009)	(2,878)	44,585	51,956	33,894	(42,489)	-	-	1,992,465	2,757,983
Other receivables	5,705,857	8,490,988	654,671	202,966	99,458	108,657	54,462	103	15,512	790	-	-	6,529,960	8,803,504
Estimated amounts due from third-party payers	27,961,513	16,198,160	-	-	-	-	-	-	-	-	-	-	27,961,513	16,198,160
Self-funded insurance funds, current	735,801	952,610	-	-	-	-	-	-	-	-	-	-	735,801	952,610
Investments designated for bond indenture	2,396,340	9,348,729	-	-	-	-	-	-	-	-	-	-	2,396,340	9,348,729
Total current assets	94,960,085	125,065,908	2,253,349	2,074,203	444,035	513,462	1,479,636	963,245	504,705	(16,794)	3,618,411	6,377,841	103,260,221	134,977,865
Noncurrent cash and investments														
Restricted under debt agreement	2,468,023	2,464,160	-	-	-	-	-	-	-	-	-	-	2,468,023	2,464,160
Self-funded insurance funds	1,318,367	1,335,823	-	-	-	-	-	-	-	-	-	-	1,318,367	1,335,823
Total noncurrent cash and investments	3,786,390	3,799,983	-	-	-	-	-	-	-	-	-	-	3,786,390	3,799,983
Capital assets, net of accumulated depreciation	238,459,352	230,820,593	995,503	1,231,401	53,502	43,736	32,920	298,661	-	-	-	-	239,541,277	232,394,391
Other assets	16,696,587	12,423,837	7,524	7,523	-	-	-	-	-	-	-	-	16,704,111	12,431,360
Total assets	353,902,414	372,110,321	3,256,376	3,313,127	497,537	557,198	1,512,556	1,261,906	504,705	(16,794)	3,618,411	6,377,841	363,291,999	383,603,599
Deferred outflows of resources	5,759,397	7,245,140	-	-	-	-	-	-	-	-	-	-	5,759,397	7,245,140
Total assets and deferred outflows of resources	\$ 359,661,811	\$ 379,355,461	\$ 3,256,376	\$ 3,313,127	\$ 497,537	\$ 557,198	\$ 1,512,556	\$ 1,261,906	\$ 504,705	\$ (16,794)	\$ 3,618,411	\$ 6,377,841	\$ 369,051,396	\$ 390,848,739
Liabilities and Deferred Inflows of Resources														
Current liabilities														
Accounts payable and accrued liabilities	\$ 23,405,559	\$ 17,025,652	\$ 828,817	\$ 3,060	\$ 386,356	\$ 119,302	\$ 953,340	\$ 726,301	\$ 1,695,051	\$ 1,217,566	\$ -	\$ -	\$ 27,269,123	\$ 19,091,881
Accounts payable and accrued liabilities - Nursing Homes	-	-	-	-	-	-	-	-	-	-	3,618,411	6,377,841	3,618,411	6,377,841
Accrued interest payable	2,600,554	1,663,508	-	-	-	-	-	-	-	-	-	-	2,600,554	1,663,508
Accrued payroll	8,981,086	9,241,110	1,440,877	1,008,093	452,332	323,139	569,906	248,128	1,289,818	1,149,885	-	-	12,734,019	11,970,355
Accrued self-insurance liabilities	1,818,714	3,263,999	-	-	-	-	-	-	-	-	-	-	1,818,714	3,263,999
Current maturities of general obligation bonds payable	2,960,000	2,860,000	-	-	-	-	-	-	-	-	-	-	2,960,000	2,860,000
Current maturities of long-term debt	7,992,057	8,064,299	-	11,988	-	-	-	-	-	-	-	-	7,992,057	8,076,287
Total current liabilities	47,757,970	42,118,568	2,269,694	1,023,141	838,688	442,441	1,523,246	974,429	2,984,869	2,367,451	3,618,411	6,377,841	58,992,878	53,303,871
Net pension liability	23,089,015	24,530,235	-	-	-	-	-	-	-	-	-	-	23,089,015	24,530,235
Interest rate swap	287,357	684,827	-	-	-	-	-	-	-	-	-	-	287,357	684,827
Accrued self-insurance liabilities	1,714,300	1,219,648	-	-	-	-	-	-	-	-	-	-	1,714,300	1,219,648
Long-term debt	56,991,073	63,768,790	-	-	-	-	-	-	-	-	-	-	56,991,073	63,768,790
General obligation bonds payable	92,560,000	95,520,000	-	-	-	-	-	-	-	-	-	-	92,560,000	95,520,000
Total liabilities	222,399,715	227,842,068	2,269,694	1,023,141	838,688	442,441	1,523,246	974,429	2,984,869	2,367,451	3,618,411	6,377,841	233,634,623	239,027,371
Deferred inflows of resources	2,994,564	3,381,216	-	-	-	-	-	-	-	-	-	-	2,994,564	3,381,216
Net Position														
Net investment in capital assets	96,061,943	86,402,944	995,503	1,219,413	53,502	43,736	32,920	298,661	-	-	-	-	97,143,868	87,964,754
Restricted - expendable for capital assets	2,372,714	10,825,255	-	-	-	-	-	-	-	-	-	-	2,372,714	10,825,255
Restricted - expendable for debt service	4,864,363	11,812,888	-	-	-	-	-	-	-	-	-	-	4,864,363	11,812,888
Unrestricted	30,968,512	39,091,090	(8,821)	1,070,573	(394,653)	71,021	(43,610)	(11,184)	(2,480,164)	(2,384,245)	-	-	28,041,264	37,837,255
Total net position	134,267,532	148,132,177	986,682	2,289,986	(341,151)	114,757	(10,690)	287,477	(2,480,164)	(2,384,245)	-	-	132,422,209	148,440,152
Total liabilities, deferred inflows of resources and net position	\$ 359,661,811	\$ 379,355,461	\$ 3,256,376	\$ 3,313,127	\$ 497,537	\$ 557,198	\$ 1,512,556	\$ 1,261,906	\$ 504,705	\$ (16,794)	\$ 3,618,411	\$ 6,377,841	\$ 369,051,396	\$ 390,848,739

Midland County Hospital District

Divisional Schedule of Revenues, Expenses and Changes in Net Position

Years Ended September 30, 2018 and 2017

	The District		Premier Family Care		Permian Cardiology, Inc.		Midland, Texas Orthopedic Group, Inc.		Midland Inpatient Medical Associates		Nursing Homes		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Operating revenues														
Net patient care revenues	\$ 232,779,065	\$ 250,533,455	\$ 12,405,497	\$ 11,928,823	\$ 2,956,212	\$ 2,867,699	\$ 6,243,521	\$ 5,614,684	\$ 2,566,252	\$ 2,491,765	\$ -	\$ -	\$ 256,950,547	\$ 273,436,426
Net patient care revenues - Nursing Homes	-	-	-	-	-	-	-	-	-	-	24,774,072	12,973,529	24,774,072	12,973,529
Other income	9,895,014	9,324,422	3,047,839	5,903,886	624,163	224,100	(35,579)	803,670	25,113	4,982,235	-	-	13,556,550	21,238,313
Total operating revenues	242,674,079	259,857,877	15,453,336	17,832,709	3,580,375	3,091,799	6,207,942	6,418,354	2,591,365	7,474,000	24,774,072	12,973,529	295,281,169	307,648,268
Operating expenses														
Salaries and benefits	129,293,557	130,902,754	12,888,131	13,460,849	4,319,566	4,191,793	6,811,435	6,571,872	5,840,416	6,602,040	-	-	159,153,105	161,729,308
Supplies	47,413,984	46,603,862	2,086,209	1,586,876	239,170	344,997	570,381	723,669	7,898	3,543	-	-	50,317,642	49,262,947
Other	54,620,011	39,560,544	3,915,751	3,693,843	1,016,513	749,102	1,427,586	1,331,690	2,791,798	3,993,558	-	-	63,771,659	49,328,737
Other - Nursing Homes	-	-	-	-	-	-	-	-	-	-	24,774,072	12,973,529	24,774,072	12,973,529
Depreciation and amortization	22,627,804	23,017,759	340,824	340,800	(9,766)	25,311	277,650	272,402	-	-	-	-	23,236,512	23,656,272
Total operating expenses	253,955,356	240,084,919	19,230,915	19,082,368	5,565,483	5,311,203	9,087,052	8,899,633	8,640,112	10,599,141	24,774,072	12,973,529	321,252,990	296,950,793
Operating income (loss)	(11,281,277)	19,772,958	(3,777,579)	(1,249,659)	(1,985,108)	(2,219,404)	(2,879,110)	(2,481,279)	(6,048,747)	(3,125,141)	-	-	(25,971,821)	10,697,475
Nonoperating revenues (expenses)														
Ad valorem tax support	32,211,727	29,353,487	-	-	-	-	-	-	-	-	-	-	32,211,727	29,353,487
Interest income	187,498	124,765	70	18	-	-	-	-	-	-	-	-	187,568	124,783
Interest expense	(8,641,421)	(8,934,072)	(775)	(2,510)	-	-	-	(55)	-	-	-	-	(8,642,196)	(8,936,637)
Build America Bond interest subsidy	2,107,441	2,161,481	-	-	-	-	-	-	-	-	-	-	2,107,441	2,161,481
Contributions to government programs	(16,124,719)	(25,773,118)	-	-	66,038	(8,004)	-	-	-	-	-	-	(16,058,681)	(25,781,122)
Other nonoperating revenue, net	(6,525,830)	39,867	2,474,980	1,862,621	1,463,162	1,982,954	2,580,943	2,046,793	5,952,828	1,713,668	-	-	5,946,083	7,645,903
Total nonoperating revenues (expenses)	3,214,696	(3,027,590)	2,474,275	1,860,129	1,529,200	1,974,950	2,580,943	2,046,738	5,952,828	1,713,668	-	-	15,751,942	4,567,895
Excess (deficiency) of revenues over expenses before distribution to other beneficial owners of partnership and capital grants and gifts	(8,066,581)	16,745,368	(1,303,304)	610,470	(455,908)	(244,454)	(298,167)	(434,541)	(95,919)	(1,411,473)	-	-	(10,219,879)	15,265,370
Distribution to other beneficial owners of partnership	(7,283,040)	(7,095,586)	-	-	-	-	-	-	-	-	-	-	(7,283,040)	(7,095,586)
Capital grants and gifts	1,484,976	2,088,922	-	-	-	-	-	-	-	-	-	-	1,484,976	2,088,922
Change in net position	(13,864,645)	11,738,704	(1,303,304)	610,470	(455,908)	(244,454)	(298,167)	(434,541)	(95,919)	(1,411,473)	-	-	(16,017,943)	10,258,706
Net position - beginning of year	148,132,177	136,393,473	2,289,986	1,679,516	114,757	359,211	287,477	722,018	(2,384,245)	(972,772)	-	-	148,440,152	138,181,446
Net position - end of year	\$ 134,267,532	\$ 148,132,177	\$ 986,682	\$ 2,289,986	\$ (341,151)	\$ 114,757	\$ (10,690)	\$ 287,477	\$ (2,480,164)	\$ (2,384,245)	\$ -	\$ -	\$ 132,422,209	\$ 148,440,152