

Midland County Hospital District

Independent Auditor's Report and Financial Statements

September 30, 2020 and 2019

Midland County Hospital District

September 30, 2020 and 2019

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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 years September 30, 2020 and 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express 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 of its discretely presented component unit as of September 30, 2020 and 2019, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis 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.

Supplementary Information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The 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.

BKD, LLP

Dallas, Texas
February 26, 2021

Midland County Hospital District

Management's Discussion and Analysis

September 30, 2020 and 2019

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, 2020 and 2019. 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 increased in 2020 from 2019 by \$44.4 million, or 180%, and increased in 2019 from 2018 by \$13.7 million, or 125%.
- The District's net position decreased in 2020 by \$8.0 million, or 5%, and increased in 2019 by \$24.7 million, or 19%.
- The District reported an operating loss in 2020 of \$37.0 million and an operating loss in 2019 of \$9.4 million. The operating loss in 2020 increased by \$27.6 million over the operating loss reported in 2019. The operating loss in 2019 decreased by \$16.6 million over the operating income reported in 2018.
- Net nonoperating revenues increased by \$15.0 million in 2020 compared to 2019 and increased \$8.4 million in 2019 compared to 2018.

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

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Management's Discussion and Analysis

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quality of services provided to its patients and local economic factors should also be considered to assess the overall financial health of the District.

The Statement of Cash Flows

The Statement of Cash Flows reports cash receipts, cash payments and net changes in cash 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 2020 by \$8.0 million, or 5%, and increased in 2019 by \$24.7 million, or 19%, as shown in Table 1.

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

Assets	2020	2019	2018
Patient accounts receivable, net	\$ 31,183,518	\$ 40,495,314	\$ 37,335,767
Estimated amounts due from third-party payers	9,961,234	20,889,728	27,961,513
Other current assets	104,331,482	68,944,253	37,962,941
Capital assets, net	233,205,670	228,844,822	239,541,277
Other noncurrent assets	19,377,323	19,897,037	20,490,501
Total assets	<u>398,059,227</u>	<u>379,071,154</u>	<u>363,291,999</u>
Deferred Outflows of Resources	<u>5,160,265</u>	<u>5,650,639</u>	<u>5,759,397</u>
Total assets and deferred outflows of resources	<u>\$ 403,219,492</u>	<u>\$ 384,721,793</u>	<u>\$ 369,051,396</u>
Liabilities			
Long-term debt	\$ 140,230,811	\$ 137,201,259	\$ 149,551,073
Net pension liability	23,393,180	24,229,609	23,089,015
Other current and noncurrent liabilities	88,012,416	63,853,634	60,994,535
Total liabilities	<u>251,636,407</u>	<u>225,284,502</u>	<u>233,634,623</u>
Deferred Inflows of Resources	<u>2,455,702</u>	<u>2,357,850</u>	<u>2,994,564</u>
Net Position			
Net investment in capital assets	103,527,683	95,400,512	97,143,868
Restricted - expendable for capital assets	283,317	283,317	2,372,714
Restricted - expendable for debt service	3,846,725	4,264,409	4,864,363
Unrestricted	41,469,658	57,131,203	28,041,264
Total net position	<u>149,127,383</u>	<u>157,079,441</u>	<u>132,422,209</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 403,219,492</u>	<u>\$ 384,721,793</u>	<u>\$ 369,051,396</u>

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Management's Discussion and Analysis

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Significant changes in the District's assets and liabilities in 2020 compared to 2019 include the following:

- Unrestricted cash and investments increased in 2020 from 2019 by \$44.4 million, or 180% due to improved collections on accounts receivable and receipt of Medicare advance payments and provider relief funds as further described in *Note 12*.
- Patient accounts receivable, net, decreased \$9.3 million from 2019 to 2020 as a result of improved collections.
- Other receivables decreased \$17.1 million from 2019 to 2020 as a result of timing of payments received.
- Estimated amounts due from third-party payers decreased by \$10.9 million from 2019 to 2020 due to the timing of receipts from various supplemental Medicaid funding programs.
- Capital assets, net, increased \$4.4 million from 2019 to 2020 due to additions of \$30.0 million offset by depreciation expense of \$25.2 million.
- Other current and noncurrent liabilities increased \$24.2 million which is primarily attributed to the receipt of Medicare advance payments and provider relief funds.

Significant changes in the District's assets and liabilities in 2019 as compared to 2020 include the following:

- Unrestricted cash and investments increased in 2019 from 2018 by \$13.7 million due to improved collections on accounts receivable after the transition to a new electronic health record system.
- The District also had an increase in capital grants and gifts from the Foundation and received a grant from Midland County of \$2.5 million for indigent mental health care.
- Other receivables also increased \$15.2 million (233%) at September 30, 2019 as compared to September 30, 2018 due to Midland Memorial Foundation raising funds for the District during 2019 that were contributed but not yet remitted at September 30, 2019.
- Estimated amounts due from third-party payers decreased by \$7.1 million, or 25%, due to the timing of receipts from various supplemental Medicaid funding programs.

Operating Results and Changes in the District's Net Position

The District's net position decreased in 2020 by \$8.0 million, or 5%, as shown in Table 2. This decrease is made up of several different components and represents a decrease of 132% compared with the increase in net position for 2019 of \$24.7 million. The District's change in net position increased from a decrease of \$16.0 million in 2018 to an increase of \$24.7 million in 2019, an overall increase of 254%.

Midland County Hospital District
Management's Discussion and Analysis
September 30, 2020 and 2019

Table 2: Operating Results and Changes in Net Position

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Operating Revenues			
Net patient care revenues	\$ 265,999,929	\$ 282,233,831	\$ 256,950,547
Net patient care revenues- Nursing Homes	24,116,154	23,524,084	24,774,072
Other operating revenues	<u>13,547,245</u>	<u>14,851,495</u>	<u>13,556,550</u>
Total operating revenues	<u>303,663,328</u>	<u>320,609,410</u>	<u>295,281,169</u>
Operating Expenses			
Salaries and benefits	174,427,698	166,455,982	159,153,105
Supplies and other	116,443,629	116,091,593	114,089,301
Other-Nursing Homes	24,116,154	23,524,084	24,774,072
Depreciation and amortization	<u>25,678,399</u>	<u>23,902,906</u>	<u>23,236,512</u>
Total operating expenses	<u>340,665,880</u>	<u>329,974,565</u>	<u>321,252,990</u>
Operating Loss	<u>(37,002,552)</u>	<u>(9,365,155)</u>	<u>(25,971,821)</u>
Nonoperating Revenues (Expenses)			
Ad valorem tax support	39,698,476	36,326,769	32,211,727
Investment income	381,596	323,287	187,568
Interest expense and BAB subsidy	(5,710,027)	(6,187,814)	(6,534,755)
Contributions to government programs	(14,624,582)	(15,850,000)	(16,058,681)
Provider relief funds	11,508,325	-	-
Other nonoperating revenue (expense), net	<u>7,822,813</u>	<u>9,510,063</u>	<u>5,946,083</u>
Total nonoperating revenues (expenses)	<u>39,076,601</u>	<u>24,122,305</u>	<u>15,751,942</u>
Excess (Deficiency) of Revenues Over Expenses Before Distribution to Other Beneficial Owners of Partnership and Capital Grants and Gifts	2,074,049	14,757,150	(10,219,879)
Distributions to Other Beneficial Owners of Partnership	(21,002,986)	(7,681,582)	(7,283,040)
Capital Grants and Gifts	<u>10,976,879</u>	<u>17,581,664</u>	<u>1,484,976</u>
Change in Net Position	(7,952,058)	24,657,232	(16,017,943)
Net Position - Beginning of Year	<u>157,079,441</u>	<u>132,422,209</u>	<u>148,440,152</u>
Net Position - End of Year	<u>\$ 149,127,383</u>	<u>\$ 157,079,441</u>	<u>\$ 132,422,209</u>

Midland County Hospital District

Management's Discussion and Analysis

September 30, 2020 and 2019

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 2020 increased by \$27.6 million, or 295%, as compared to 2019. The primary components of the increased operating loss are:

- A decrease in net patient service revenue of \$16.2 million, or 6%. Net patient service revenue decreased due to declines in patient volumes as a result of the COVID-19 pandemic.
- An increase in salaries and benefits of \$8.0 million, or 5%, due to an increase in wages paid to employees through merit increases and cost of living adjustments.

The operating loss for 2019 decreased by \$16.6 million, or 64%, as compared to 2018. The primary components of the decreased operating loss are:

- An increase in net patient service revenue of \$25.3 million, or 10%. Net patient service revenue increased because of fluctuations in volume from 2018 to 2019. 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 which did not recur in 2019.
- An increase in salaries and benefits of \$7.3 million, or 5%, due to an increase in wages paid to employees through merit increases and cost of living adjustments.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist of ad valorem taxes levied by the District, investment income, interest expense, contributions to government program and provider relief funds. Ad valorem tax support increased by \$3.4 million, or 9%, in 2020 as compared to 2019. Other nonoperating revenues decreased \$1.7 million due to grant funding received from Midland County for indigent care being received in 2019 and not in 2020. In 2020, provider relief funds of \$11.5 million were recognized to cover lost revenue and expenses stemming from the COVID-19 pandemic.

Capital Grants and Gifts

The District received gifts of \$11.0 million during 2020, primarily from Midland Memorial Foundation, to purchase capital assets, a decrease of \$6.6 million, or 38% from 2019.

Distributions to Other Beneficial Owners of Partnership

The District purchased an additional net interest in revenue sharing agreements of 10% in 2020. The purchase price of the additional interest was approximately \$14.4 million and is more fully described in *Note 1*.

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Management's Discussion and Analysis

September 30, 2020 and 2019

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 2020, 2019, and 2018, discussed earlier, with exceptions to follow. Cash provided by operating activities was more than the operating loss in 2020 due to receipt of Medicare advance payments of \$25.5 million. 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 September 30, 2020, the District had \$233.2 million invested in capital assets, net of accumulated depreciation, as detailed in *Note 5* to the financial statements.

Debt

At September 30, 2020, the District had \$151.6 million in notes payable and general obligations bonds outstanding. During 2020, the District had access to an open line of credit with its' depository institution in the amount of \$20.0 million. In 2019, the District intermittently drew on the letter of credit in the amount of \$21.7 million which was paid in full during the year. As of September 30, 2020 and 2019, there were no amounts due on the lines of credit.

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, 2020 and 2019

Assets and Deferred Outflows of Resources	2020		2019	
	The District	Component Unit Foundation	The District	Component Unit Foundation
	The District	Foundation	The District	Foundation
Current assets				
Cash and cash equivalents	\$ 29,124,025	\$ 711,747	\$ 15,079,040	\$ 234,222
Cash and cash equivalents-Nursing Homes	401,717	-	244,875	-
Cash designated for capital projects	283,317	-	283,317	-
Short-term investments	39,971,015	43,941,238	9,602,165	46,353,448
Property tax receivable, net	932,718	-	742,348	-
Patient accounts receivable, less allowance for doubtful accounts of \$30,741,000 in 2020 and \$54,744,000 in 2019	31,183,518	-	40,495,314	-
Patient accounts receivable-Nursing Homes, net	2,519,109	-	4,680,406	-
Supplies	10,298,952	-	8,387,191	-
Prepaid expenses	11,156,735	-	2,743,738	-
Other receivables	7,030,718	11,481,608	24,131,900	14,768,863
Estimated amounts due from third-party payers	9,961,234	-	20,889,728	-
Self-funded insurance funds, current	266,451	-	284,864	-
Investments designated for bond indenture	2,346,725	-	2,764,409	-
Total current assets	145,476,234	56,134,593	130,329,295	61,356,533
Noncurrent cash and investments				
Restricted under debt agreement	1,500,000	-	1,500,000	-
Self-funded insurance funds	1,437,573	-	1,552,352	-
Deferred compensation plan investments	-	176,169	-	176,169
Donor restricted funds	-	26,822,449	-	26,980,294
Total noncurrent cash and investments	2,937,573	26,998,618	3,052,352	27,156,463
Capital assets, net of accumulated depreciation	233,205,670	116,353	228,844,822	115,308
Other assets	16,439,750	-	16,844,685	-
Total assets	398,059,227	83,249,564	379,071,154	88,628,304
Deferred outflows of resources	5,160,265	-	5,650,639	-
Total assets and deferred outflows of resources	\$ 403,219,492	\$ 83,249,564	\$ 384,721,793	\$ 88,628,304

Midland County Hospital District
Balance Sheets (Continued)
September 30, 2020 and 2019

	2020		2019	
	The District	Component Unit Foundation	The District	Component Unit Foundation
	The District	Foundation	The District	Foundation
Liabilities and Deferred Inflows of Resources				
Current liabilities				
Accounts payable and accrued liabilities	\$ 21,124,717	\$ 8,810,108	\$ 28,546,740	\$ 13,189,311
Accounts payable and accrued liabilities-Nursing Homes	2,920,826	-	4,925,281	-
Accrued interest payable	2,292,012	-	2,329,255	-
Accrued payroll	12,899,395	350,000	13,392,866	171,500
Accrued self-insurance liabilities	1,756,088	-	1,424,476	-
Advance Medicare payments	8,964,376	-	-	-
Unearned revenue - provider relief funds	8,274,006	-	-	-
Current maturities of general obligation bonds payable	3,180,000	-	3,065,000	-
Current maturities of long-term debt	8,149,164	-	8,011,860	-
Total current liabilities	<u>69,560,584</u>	<u>9,160,108</u>	<u>61,695,478</u>	<u>13,360,811</u>
Net pension liability	23,393,180	-	24,229,609	-
Interest rate swap	69,583	-	192,799	-
Deferred compensation plan liabilities	-	176,169	-	176,169
Accrued self-insurance liabilities	1,825,121	-	1,965,357	-
Advance Medicare payments	16,557,128	-	-	-
Long-term debt	53,915,811	-	47,706,259	-
General obligation bonds payable	86,315,000	-	89,495,000	-
Total liabilities	<u>251,636,407</u>	<u>9,336,277</u>	<u>225,284,502</u>	<u>13,536,980</u>
Deferred inflows of resources	<u>2,455,702</u>	-	<u>2,357,850</u>	-
Net Position				
Net investment in capital assets	103,527,683	116,353	95,400,512	115,308
Restricted - expendable for capital assets and other	283,317	22,830,458	283,317	24,313,766
Restricted - expendable for debt service	3,846,725	-	4,264,409	-
Restricted - nonexpendable	-	51,437,909	-	50,848,842
Unrestricted	41,469,658	(471,433)	57,131,203	(186,592)
Total net position	<u>149,127,383</u>	<u>73,913,287</u>	<u>157,079,441</u>	<u>75,091,324</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 403,219,492</u>	<u>\$ 83,249,564</u>	<u>\$ 384,721,793</u>	<u>\$ 88,628,304</u>

Midland County Hospital District
Statements of Revenues, Expenses and Changes in Net Position
Years Ended September 30, 2020 and 2019

	2020		2019	
	The District	Component Unit Foundation	The District	Component Unit Foundation
Operating Revenues				
Net patient care revenues	\$ 265,999,929	\$ -	\$ 282,233,831	\$ -
Net patient care revenues- Nursing Homes	24,116,154	-	23,524,084	-
Other operating revenues	13,547,245	13,042,711	14,851,495	35,797,446
Total operating revenues	<u>303,663,328</u>	<u>13,042,711</u>	<u>320,609,410</u>	<u>35,797,446</u>
Operating Expenses				
Salaries and benefits	174,427,698	-	166,455,982	-
Supplies	53,469,692	-	54,227,355	-
Other	62,973,937	16,084,720	61,864,238	21,188,329
Other-Nursing Homes	24,116,154	-	23,524,084	-
Depreciation and amortization	25,678,399	-	23,902,906	-
Total operating expenses	<u>340,665,880</u>	<u>16,084,720</u>	<u>329,974,565</u>	<u>21,188,329</u>
Operating Income (Loss)	<u>(37,002,552)</u>	<u>(3,042,009)</u>	<u>(9,365,155)</u>	<u>14,609,117</u>
Nonoperating Revenues (Expenses)				
Ad valorem tax support	39,698,476	-	36,326,769	-
Investment income	381,596	1,863,972	323,287	928,009
Interest expense	(7,626,051)	-	(8,171,376)	-
Build America Bond interest subsidy	1,916,024	-	1,983,562	-
Contributions to government programs	(14,624,582)	-	(15,850,000)	-
Provider relief funds revenue	11,508,325	-	-	-
Other nonoperating revenue, net	7,822,813	-	9,510,063	-
Total nonoperating revenues (expenses)	<u>39,076,601</u>	<u>1,863,972</u>	<u>24,122,305</u>	<u>928,009</u>
Excess (Deficiency) of Revenues Over Expenses Before Distribution to Other Beneficial Owners of Partnership and Capital Grants and Gifts				
	2,074,049	(1,178,037)	14,757,150	15,537,126
Distributions to Other Beneficial Owners of Partnership				
	(21,002,986)	-	(7,681,582)	-
Capital Grants and Gifts				
	10,976,879	-	17,581,664	-
Change in Net Position	(7,952,058)	(1,178,037)	24,657,232	15,537,126
Net Position - Beginning of Year	<u>157,079,441</u>	<u>75,091,324</u>	<u>132,422,209</u>	<u>59,554,198</u>
Net Position - End of Year	<u>\$ 149,127,383</u>	<u>\$ 73,913,287</u>	<u>\$ 157,079,441</u>	<u>\$ 75,091,324</u>

See notes to financial statements

Midland County Hospital District
Statements of Cash Flows
Years Ended September 30, 2020 and 2019

	2020	2019
Operating Activities		
Cash received for patient care	\$ 312,698,243	\$ 286,604,739
Cash received for patient care-Nursing Homes	25,340,931	21,981,086
Cash received from others	26,558,296	11,227,991
Cash payments to suppliers for goods and services	(160,418,795)	(137,689,318)
Cash payments to suppliers for goods and services-Nursing Homes	(2,004,455)	1,306,870
Cash payments to employees for services	(175,345,165)	(165,407,433)
	26,829,055	18,023,935
Net cash provided by operating activities		
Noncapital Financing Activities		
Ad valorem tax support	32,921,373	29,119,732
Proceeds from provider relief funds	19,782,331	-
Contribution from Midland County for indigent care	-	2,500,000
Proceeds from temporary letter of credit	-	21,714,996
Payments on temporary letter of credit	-	(21,714,996)
Proceeds from issuance of notes payable	14,365,374	-
Contributions to government programs	(14,624,582)	(15,850,000)
	52,444,496	15,769,732
Net cash provided by noncapital financing activities		
Capital and Related Financing Activities		
Ad valorem tax support related to general obligation bonds	6,586,733	7,385,459
Principal payments on general obligation bonds	(3,065,000)	(2,960,000)
Principal payments on long-term debt obligations	(8,018,518)	(9,265,011)
Interest paid on long-term debt obligations	(1,739,590)	(2,141,412)
Interest paid on general obligation funds	(5,923,704)	(6,301,263)
Receipt of Build America Bond interest subsidy	1,916,024	1,983,562
Purchases of capital assets	(27,835,749)	(15,755,106)
Proceeds from sale of capital assets	359,699	-
Contributions for capital purchases	15,294,999	5,259,744
	(22,425,106)	(21,794,027)
Net cash used in capital and related financing activities		
Investing Activities		
Investment income	381,596	323,287
Distributions to other beneficial owners	(6,637,612)	(7,681,582)
Purchase of interest in revenue sharing agreement	(14,365,374)	-
Purchase of investments	(29,951,166)	(1,741,415)
Other investing activity	7,925,938	6,598,764
	(42,646,618)	(2,500,946)
Net cash used in investing activities		
Increase in Cash and Cash Equivalents	14,201,827	9,498,694
Cash and Cash Equivalents, Beginning of Year	17,107,232	7,608,538
Cash and Cash Equivalents, End of Year	\$ 31,309,059	\$ 17,107,232

Midland County Hospital District
Statements of Cash Flows (Continued)
Years Ended September 30, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Reconciliation of Cash and Cash Equivalents to the Balance Sheets		
Cash and cash equivalents	\$ 29,124,025	\$ 15,079,040
Cash and cash equivalents-Nursing Homes	401,717	244,875
Cash designated for other capital projects	283,317	283,317
Restricted under debt agreement	<u>1,500,000</u>	<u>1,500,000</u>
 Total cash and cash equivalents	 <u>\$ 31,309,059</u>	 <u>\$ 17,107,232</u>
Reconciliation of Operating Loss to Net Cash Provided by (Used in) Operating Activities		
Operating loss	\$ (37,002,552)	\$ (9,365,155)
Depreciation and amortization	25,678,399	23,902,906
Changes in operating assets and liabilities:		
Net patient accounts receivable	9,311,796	(3,159,547)
Net patient accounts receivable-Nursing Homes	2,161,297	(1,084,328)
Supplies	(1,911,761)	35,002
Prepaid expenses	(8,412,997)	(751,273)
Other receivables and other assets	13,179,156	(4,926,229)
Estimated amounts due from third-party payers	10,928,494	7,071,785
Accrued self-insurance liabilities	324,568	73,771
Advance Medicare payments	25,521,504	-
Accrued payroll	(493,471)	658,847
Accounts payable and accrued liabilities	(9,672,686)	4,150,024
Accounts payable and accrued liabilities-Nursing Homes	(2,004,455)	1,306,870
Payable for pension	(836,429)	1,140,594
Deferred outflows of resources	(39,660)	(392,618)
Deferred inflows of resources	<u>97,852</u>	<u>(636,714)</u>
 Net cash provided by operating activities	 <u>\$ 26,829,055</u>	 <u>\$ 18,023,935</u>
Noncash Investing, Capital and Financing Activities		
Capital assets acquisitions included in accounts payable	<u>\$ 4,766,824</u>	<u>\$ 2,639,377</u>

Midland County Hospital District

Notes to Financial Statements

September 30, 2020 and 2019

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 County Hospital District

Notes to Financial Statements

September 30, 2020 and 2019

Midland, Texas Orthopedic Group, Inc. (MTOG) is a Texas nonprofit corporation established under the Texas Medical Practice Act. MTOG was organized November 22, 2013 to provide patient health care services to the public and engage in the instruction of the general public in the area of medical science, public health and hygiene and related instruction useful to the individual and beneficial to the community. The District is the sole member of MTOG, which is included as a blended component unit in the accompanying financial statements. 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 \$2.1 million and \$3.8 million to the District for the years ending September 30, 2020 and 2019, respectively, for both restricted and unrestricted purposes. At September 30, 2020 and 2019, the District recorded a receivable of \$8.9 million and \$13.2 million, respectively, for 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 2020 and 2019, 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.

Midland County Hospital District
Notes to Financial Statements
September 30, 2020 and 2019

In 2014, the District joined with other healthcare organization investors to form ContinueCare Hospital of Midland, Inc. (CCH). CCH ceased operations in 2019. Prior to ceasing operations, the District was entitled to an 80% share of the profits and losses in CCH, and the District had agreements with CCH for leasing of facility space as well as ancillary services. There was no revenue reported under these contracts in 2020 or 2019. Unpaid amounts under these contracts as of September 30, 2019 amounted to approximately \$0.1 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 \$14.8 million and \$14.4 million at September 30, 2020 and 2019, respectively, which is reflected as a component of other assets in the balance sheets. Income from joint ventures was approximately \$6.6 million and \$7.3 million during the years ended September 30, 2020 and 2019, 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:

	<u>2020</u>	<u>2019</u>
MRI	85%	75%
Diagnostic Imaging	85%	75%
Mammography	85%	75%
Cardiology	85%	75%
Occupational Therapy	50%	50%

The District purchased an additional net interest of 10% in 2020. The purchase price of the additional interest was approximately \$14.4 million. During fiscal years ended September 30, 2020 and 2019, the District distributed approximately \$6.6 million and \$7.7 million, respectively, in residual amounts to beneficial owners. The purchase price and distributions are included in Distributions to Other Beneficial Owners of Partnership in the accompanying statements of revenues, expenses, and changes in net assets.

Midland County Hospital District

Notes to Financial Statements

September 30, 2020 and 2019

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.

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, 2020 and 2019, 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 2020 and 2019 on 100% of appraised property value at the rate of \$0.099072 and \$0.126158 per \$100 valuation, respectively. Approximately 16.7% and 20.2% of the assessed taxes were used for debt service obligations and the remaining 83.3% and 79.8% were used for operations for the years ended September 30, 2020 and 2019, 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.

Midland County Hospital District
Notes to Financial Statements
September 30, 2020 and 2019

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.

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

Midland County Hospital District
Notes to Financial Statements
September 30, 2020 and 2019

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, 2020 and 2019.

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.

At September 30, 2020 and 2019, the District's deferred outflows of resources was comprised of the following:

	<u>2020</u>	<u>2019</u>
Accumulated decrease in fair value of interest rate swap	\$ 69,583	\$ 192,799
Pension related	883,162	843,502
Goodwill	<u>4,207,520</u>	<u>4,614,338</u>
	<u>\$ 5,160,265</u>	<u>\$ 5,650,639</u>

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.

Midland County Hospital District
Notes to Financial Statements
September 30, 2020 and 2019

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, 2020 and 2019, the District's deferred inflows of resources was comprised of the following:

	2020	2019
Property taxes under time restrictions	\$ 1,922,654	\$ 1,980,652
Pension related	361,153	37,198
Other	171,895	340,000
	\$ 2,455,702	\$ 2,357,850

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 \$15.1 million and \$6.3 million for the years ended September 30, 2020 and 2019, respectively.

Midland County Hospital District

Notes to Financial Statements

September 30, 2020 and 2019

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 \$3.5 million and \$1.4 million for the years ended September 30, 2020 and 2019, 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 \$2.0 million of nonoperating revenue in 2020 and 2019, for the BABs interest subsidy.

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.

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.

Midland County Hospital District

Notes to Financial Statements

September 30, 2020 and 2019

Approximately 40% and 39% of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended September 30, 2020 and 2019, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

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. On November 30, 2020, CMS approved an additional extension to extend the Waiver for an additional ten-year period through September 30, 2030. The latest extension ends the DSRIP pool effective September 30, 2021, as well as other administrative changes to reflect CMS policy changes. Changes in the funding mechanics of these programs could have an adverse impact on the District’s operating results.

Midland County Hospital District
Notes to Financial Statements
September 30, 2020 and 2019

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.

The District also participates 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.

The District also participates 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.

In 2019, the District began receiving supplemental payments through the Medicaid Graduate Medical Education (GME) program. The GME program provides reimbursement to support teaching hospitals that operate approved medical residency training programs in recognition of the higher costs incurred by teaching hospitals.

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:

	2020	2019
DSH	\$ 8,926,884	\$ 7,804,084
UC Pool	9,922,492	6,316,801
DSRIP	9,450,000	9,611,934
GME	102,320	240,000
NAIP	5,000,000	5,136,369
QIPP	1,100,001	1,832,701
	\$ 34,501,697	\$ 30,941,889

Amounts receivable under these programs was approximately \$9.6 million and \$14.3 million at September 30, 2020 and 2019, respectively, and are included in estimated amounts due from third-party payers.

The District incurred increased costs to supplement the state's funding of some of the programs mentioned above for affiliated providers of approximately \$14.6 million and \$15.9 million in 2020 and 2019, 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. As part of regional indigent care affiliations with area hospitals that participate in the state's supplemental funding programs, the District

Midland County Hospital District
Notes to Financial Statements
September 30, 2020 and 2019

also realized a savings in medical service costs of approximately \$20.2 million and \$20.3 million in 2020 and 2019, respectively.

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, 2020 and 2019, approximately \$1.3 million of the District's bank balances were uninsured and uncollateralized.

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:

	<u>2020</u>	<u>2019</u>
Medicare	\$ 5,875,663	\$ 10,478,225
Medicaid	2,341,300	2,552,859
Other third-party payers	34,977,868	44,997,749
Patients	<u>18,729,375</u>	<u>37,210,691</u>
	61,924,206	95,239,524
Less allowance for uncollectible accounts	<u>30,740,688</u>	<u>54,744,210</u>
	<u>\$ 31,183,518</u>	<u>\$ 40,495,314</u>

Midland County Hospital District
Notes to Financial Statements
September 30, 2020 and 2019

Note 5: Capital Assets

Capital assets activity for the years ended September 30 was:

	2020			
	Beginning Balance	Additions	Retirements and Transfers	Ending Balance
Nondepreciable assets:				
Land	\$ 7,936,484	\$ -	\$ (266,500)	\$ 7,669,984
Construction-in-progress	5,185,293	21,911,218	(10,423,908)	16,672,603
	<u>13,121,777</u>	<u>21,911,218</u>	<u>(10,690,408)</u>	<u>24,342,587</u>
Depreciable assets:				
Land improvements	2,462,883	-	-	2,462,883
Buildings	267,112,746	130,626	-	267,243,372
Furniture, fixtures and equipment	269,302,501	7,921,352	8,181,449	285,405,302
	<u>538,878,130</u>	<u>8,051,978</u>	<u>8,181,449</u>	<u>555,111,557</u>
Less accumulated depreciation:				
Land improvements	(926,014)	(29,922)	-	(955,936)
Buildings	(140,781,219)	(11,114,732)	-	(151,895,951)
Furniture, fixtures and equipment	(181,447,852)	(14,097,995)	2,149,260	(193,396,587)
	<u>(323,155,085)</u>	<u>(25,242,649)</u>	<u>2,149,260</u>	<u>(346,248,474)</u>
Depreciable assets, net	<u>215,723,045</u>	<u>(17,190,671)</u>	<u>10,330,709</u>	<u>208,863,083</u>
Capital assets, net	<u>\$ 228,844,822</u>	<u>\$ 4,720,547</u>	<u>\$ (359,699)</u>	<u>\$ 233,205,670</u>

Midland County Hospital District
Notes to Financial Statements
September 30, 2020 and 2019

	2019			
	Beginning Balance	Additions	Retirements and Transfers	Ending Balance
Nondepreciable assets:				
Land	\$ 7,936,484	\$ -	\$ -	\$ 7,936,484
Construction-in-progress	956,914	5,751,421	(1,523,042)	5,185,293
	<u>8,893,398</u>	<u>5,751,421</u>	<u>(1,523,042)</u>	<u>13,121,777</u>
Depreciable assets:				
Land improvements	2,462,883	-	-	2,462,883
Buildings	265,801,613	178,035	1,133,098	267,112,746
Furniture, fixtures and equipment	262,053,873	6,858,685	389,943	269,302,501
	<u>530,318,369</u>	<u>7,036,720</u>	<u>1,523,041</u>	<u>538,878,130</u>
Less accumulated depreciation:				
Land improvements	(898,819)	(27,195)	-	(926,014)
Buildings	(129,364,182)	(11,417,037)	-	(140,781,219)
Furniture, fixtures and equipment	(169,407,489)	(12,051,856)	11,493	(181,447,852)
	<u>(299,670,490)</u>	<u>(23,496,088)</u>	<u>11,493</u>	<u>(323,155,085)</u>
Depreciable assets, net	<u>230,647,879</u>	<u>(16,459,368)</u>	<u>1,534,534</u>	<u>215,723,045</u>
Capital assets, net	<u>\$ 239,541,277</u>	<u>\$ (10,707,947)</u>	<u>\$ 11,492</u>	<u>\$ 228,844,822</u>

Note 6: Accounts Payable and Accrued Expenses

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

	2020	2019
Payables to suppliers and contractors	\$ 16,357,893	\$ 25,907,363
Payables for capital assets	<u>4,766,824</u>	<u>2,639,377</u>
	<u>\$ 21,124,717</u>	<u>\$ 28,546,740</u>

Midland County Hospital District
Notes to Financial Statements
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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.

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.

Midland County Hospital District
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Activity in the District's self-insured risk liabilities during 2020 and 2019 is summarized as follows:

	2020		
	Medical Malpractice	Employee Health	Workers Compensation
Balance, beginning of year	\$ 437,165	\$ 1,115,604	\$ 1,837,064
Current year claims incurred and changes in estimates for claims incurred in prior years	89,761	9,602,872	182,225
Claims and expenses paid	<u>(100,000)</u>	<u>(9,268,063)</u>	<u>(315,419)</u>
Balance end of year	<u>\$ 426,926</u>	<u>\$ 1,450,413</u>	<u>\$ 1,703,870</u>
Due within one year	\$ 39,224	\$ 1,450,413	\$ 266,451
Due in subsequent years	<u>387,702</u>	<u>-</u>	<u>1,437,419</u>
	<u>\$ 426,926</u>	<u>\$ 1,450,413</u>	<u>1,703,870</u>
	2019		
	Medical Malpractice	Employee Health	Workers Compensation
Balance, beginning of year	\$ 464,319	\$ 1,014,678	\$ 2,054,017
Current year claims incurred and changes in estimates for claims incurred in prior years	(27,154)	10,681,209	49,763
Claims and expenses paid	<u>-</u>	<u>(10,580,283)</u>	<u>(266,716)</u>
Balance end of year	<u>\$ 437,165</u>	<u>\$ 1,115,604</u>	<u>\$ 1,837,064</u>
Due within one year	\$ 24,008	\$ 1,115,604	\$ 284,864
Due in subsequent years	<u>413,157</u>	<u>-</u>	<u>1,552,200</u>
	<u>\$ 437,165</u>	<u>\$ 1,115,604</u>	<u>1,837,064</u>

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

Midland County Hospital District
Notes to Financial Statements
September 30, 2020 and 2019

Note 8: Long-Term Obligations

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

		2020				
		<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Long-term debt						
Notes payable	\$	55,718,119	\$ 14,365,374	\$ (8,018,518)	\$ 62,064,975	\$ 8,149,164
General obligation bonds payable						
Series B 2009		<u>92,560,000</u>	<u>-</u>	<u>(3,065,000)</u>	<u>89,495,000</u>	<u>3,180,000</u>
	\$	<u>148,278,119</u>	<u>\$ 14,365,374</u>	<u>\$ (11,083,518)</u>	<u>\$ 151,559,975</u>	<u>\$ 11,329,164</u>
		2019				
		<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Amount Due Within One Year</u>
Long-term debt						
Notes payable	\$	64,983,130	\$ 21,714,996	\$ (30,980,007)	\$ 55,718,119	\$ 8,011,860
General obligation bonds payable						
Series B 2009		<u>95,520,000</u>	<u>-</u>	<u>(2,960,000)</u>	<u>92,560,000</u>	<u>3,065,000</u>
	\$	<u>160,503,130</u>	<u>\$ 21,714,996</u>	<u>\$ (33,940,007)</u>	<u>\$ 148,278,119</u>	<u>\$ 11,076,860</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, 2020 and 2019 was 5.02% and 2.70%, respectively. Included in non-current cash and investments restricted was approximately \$1,500,000 at September 30, 2020 and 2019, 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% (4.175% at September 30, 2020). Interest and principal is due in monthly payments of \$73,472 through July 17, 2037. The note is secured by the Medical Office Building.

During 2009, the District also entered into a note payable with Prosperity Bank, 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% (4.175% at September 30, 2020). Interest and principal is due in monthly payments of \$5,702 through July 17, 2037. The note is secured by the Medical Office Building.

Midland County Hospital District

Notes to Financial Statements

September 30, 2020 and 2019

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 4.25% and 4.0% during 2020 and 2019, respectively. There were no amounts due under the line of credit at September 30, 2020 and 2019. 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 (3.90% and 6.25% at September 30, 2020 and 2019, respectively). In January 2020, the District renewed the \$10 million line of credit secured by certificates of deposit 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. In 2020, the District and lender executed an amended agreement that created an additional credit facility in the amount of \$14,365,374, extended the maturity date to September 30, 2025 and changed the interest rate to 3.5%.

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 were used 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 was not to exceed \$40,000,000, of which \$3,000,000 has been drawn down for the sterile processing project costs at both, September 30, 2020 and 2019. 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 the acquisition and implementation of an electronic medical records system. The total aggregate principal could not exceed \$40,000,000, of which \$15,500,000 has been drawn down for an electronic medical records system at both September 30, 2020 and 2019. 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.

Midland County Hospital District
Notes to Financial Statements
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The maturities of notes payable as of September 30, 2020, are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>Total Debt Service</u>
2021	\$ 8,149,164	\$ 1,837,884	\$ 9,987,048
2022	3,538,640	1,480,711	5,019,351
2023	4,947,345	1,338,206	6,285,551
2024	5,860,775	1,135,476	6,996,251
2025	6,085,063	912,069	6,997,132
2026 to 2030	27,873,988	1,557,686	29,431,674
2031 to 2035	4,740,000	103,237	4,843,237
2036 to 2039	870,000	22,385	892,385
	<u>\$ 62,064,975</u>	<u>\$ 8,387,654</u>	<u>\$ 70,452,629</u>

General Obligation Bonds

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 2020 and 2019, the tax rebate provision was reduced by 8.7% due to federally mandated sequestration adjustments. The District earned rebates of approximately \$2.0 million for the years ending September 30, 2020 and 2019. The Series B bonds constitute a direct obligation of the District, payable from the levy and collection of an annual ad valorem tax levied by the District.

Midland County Hospital District
Notes to Financial Statements
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The maturities of the general obligation bond issues as of September 30, 2020 are as follows:

	<u>Principal</u>	<u>Interest</u>	<u>BAB Subsidy</u>	<u>Total Debt Service</u>
2021	\$ 3,180,000	\$ 5,695,066	\$ (1,849,757)	\$ 7,025,309
2022	3,305,000	5,512,057	(1,790,316)	7,026,741
2023	3,435,000	5,318,549	(1,727,465)	7,026,084
2024	3,580,000	5,100,770	(1,656,730)	7,024,040
2025	3,730,000	4,873,798	(1,583,010)	7,020,788
2026 to 2030	21,130,000	20,617,295	(6,696,498)	35,050,797
2031 to 2035	26,020,000	13,254,164	(4,304,953)	34,969,211
2036 to 2039	25,115,000	4,128,362	(1,340,892)	27,902,470
	<u>\$ 89,495,000</u>	<u>\$ 64,500,061</u>	<u>\$ (20,949,621)</u>	<u>\$ 133,045,440</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 \$4,733,361 and \$7,562,444 at September 30, 2020 and 2019, respectively. The notional amount of the swap amortizes over time. Under the agreement, the District pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

Midland County Hospital District
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Fair Value

As of September 30, 2020 and 2019, the agreement had a negative fair value of \$69,583 and \$192,799, 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 balance is reflected as a deferred outflow on the District's balance sheet. The change in fair value of the swap of \$123,216 and \$94,558 for the years ended September 30, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019.

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, 2020, 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
2021	\$ <u>4,733,361</u>	<u>42,007</u>	<u>33,306</u>	\$ <u>4,808,674</u>

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Note 10: Pension Plans

Defined Contribution 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. District contributions to the plan were not significant in 2020 or 2019 and there are no amounts outstanding.

In 2005, the District also began a defined contribution pension plan known as a Section 403(b) Plan. This plan covers substantially all employees meeting age and service requirements. The plan is administered by a third-party administrator appointed by the District board. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the District's governing body. Employee contributions are discretionary. Based on years of service, the District matches employee contributions on an increasing scale starting at 50% of the first 6% increasing to 100% of the first 7.5%. A member is fully vested in the employer match after 1 year of service. Part-time employees are also allowed to contribute to the plan; however, the District does not match any contributions made by those employees. As of September 30, 2020 and 2019, the District has outstanding liabilities of \$355,134 and \$316,080, respectively, for the plan that are reported in accrued payroll on the balance sheets.

During the years ended September 30, 2020 and 2019, employee and District contributions to the plan were as follows:

	<u>2020</u>	<u>2019</u>
Participant salaries	\$ 57,540,575	\$ 57,279,095
Contributions by employees	\$ 4,492,093	\$ 4,365,212
Percent of participant salaries	7.81%	7.62%
Contributions by the District	\$ 2,519,593	\$ 2,514,045
Percent of participant salaries	4.38%	4.39%

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

Midland County Hospital District

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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 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.

Midland County Hospital District
Notes to Financial Statements
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The employees covered by the Plan at September 30, 2020 and 2019, are:

	2020	2019
Inactive employees or beneficiaries currently receiving benefits	383	366
Inactive employees entitled to but not yet receiving benefits	341	343
Active employees	178	201
	902	910

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. The District contributed \$2,167,000 and \$1,850,000 in 2020 and 2019, respectively. As of 2010, no contributions by employees are required under the Plan.

Net Pension Liability

The District's net pension liability was measured as of September 30, 2020 and 2019, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2020 and 2019, respectively, updated through the measurement dates of September 30, 2020, respectively.

The total pension liability in the September 30, 2020 and 2019 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	N/A
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-2019 for the 2020 actuarial valuation.

Mortality rates were based on the Society of Actuaries RP-2014 Mortality Tab, projected from the 2006 base year with Projection Scale MP-2018 for the 2019 actuarial valuation.

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.

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Notes to Financial Statements
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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, 2020, and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	44%	10.03%
Fixed	25%	4.89%
International	31%	5.55%
Real Estate and other	0%	5.36%
Total	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 8% for both the years ended September 30, 2020 and 2019. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at a maximum 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.

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

	2020		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, beginning of year	\$ 62,764,555	\$ 38,534,946	\$ 24,229,609
Changes for the year:			
Interest	4,827,745	-	4,827,745
Differences between expected and actual experience	163,726	-	163,726
Changes in assumptions	(542,270)	-	(542,270)
Contributions - employer	-	2,167,000	(2,167,000)
Net investment income	-	3,118,630	(3,118,630)
Benefits payments, including refunds of employee contributions	(4,727,101)	(4,727,101)	-
Net changes	(277,900)	558,529	(836,429)
Balance, end of year	\$ 62,486,655	\$ 39,093,475	\$ 23,393,180

Midland County Hospital District

Notes to Financial Statements

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	2019		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance, beginning of year	\$ 62,373,026	\$ 39,284,011	\$ 23,089,015
Changes for the year:			
Interest	4,806,322	-	4,806,322
Differences between expected and actual experience	3,289	-	3,289
Changes in assumptions	(127,926)	-	(127,926)
Contributions - employer	-	1,850,000	(1,850,000)
Net investment income	-	1,691,091	(1,691,091)
Benefits payments, including refunds of employee contributions	(4,290,156)	(4,290,156)	-
Net changes	391,529	(749,065)	1,140,594
Balance, end of year	<u>\$ 62,764,555</u>	<u>\$ 38,534,946</u>	<u>\$ 24,229,609</u>

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	<u>\$ 28,953,806</u>	<u>\$ 23,393,180</u>	<u>\$ 18,598,323</u>

Midland County Hospital District
Notes to Financial Statements
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Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended September 30, 2020 and 2019, the District recognized pension expense of \$1,615,822 and \$2,268,818, respectively. At September 30, 2020 and 2019, the District reported deferred outflows or resources and deferred inflows of resources related to pensions from the following sources:

	2020	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 28,415	\$ -
Changes of assumptions	-	94,113
Net difference between projected and actual earnings on plan investments	854,747	267,040
	\$ 883,162	\$ 361,153
	2019	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 956	\$ -
Changes of assumptions	-	37,198
Net difference between projected and actual earnings on plan investments	842,546	-
	\$ 843,502	\$ 37,198

Amounts reported as deferred outflows of resources and deferred inflows of resources at September 30, 2020, related to pensions will be recognized in pension expense as follows:

Year ended September 30:	
2021	\$ 98,051
2022	247,387
2023	222,421
2024	(45,850)

Midland County Hospital District
Notes to Financial Statements
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Pension Plan Fiduciary Net Position

As of September 30, 2020 and 2019, the Plan’s fiduciary net position was comprised of the following:

	<u>2020</u>	<u>2019</u>
Money market mutual fund	\$ 1,083,491	\$ 1,850,000
Mutual funds - equities	17,773,358	15,749,478
Mutual funds - fixed income	8,280,880	8,638,271
Mutual funds - international	<u>11,955,746</u>	<u>12,297,197</u>
Total plan fiduciary net position	<u>\$ 39,093,475</u>	<u>\$ 38,534,946</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 8.0% for the 12 months ended September 30, 2020.

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, 2020 and 2019, 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. 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
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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, 2020 and 2019.

At September 30, 2020 and 2019, the Plan's investments had the following maturities:

	2020				
	Maturities in Years				
	Fair Value	Less than 1	1-5	6-10	More than 10
Money market mutual fund	\$ 1,083,491	\$ 1,083,491	\$ -	\$ -	\$ -
Mutual funds - equities	17,773,358	17,773,358	-	-	-
Mutual funds - fixed income	8,280,880	3,635,418	1,475,997	1,043,296	2,126,169
Mutual funds - international	11,955,746	11,955,746	-	-	-
	<u>\$ 39,093,475</u>	<u>\$ 34,448,013</u>	<u>\$ 1,475,997</u>	<u>\$ 1,043,296</u>	<u>\$ 2,126,169</u>
	2019				
	Maturities in Years				
	Fair Value	Less than 1	1-5	6-10	More than 10
Money market mutual fund	\$ 1,850,000	\$ 1,850,000	\$ -	\$ -	\$ -
Mutual funds - equities	15,749,478	15,749,478	-	-	-
Mutual funds - fixed income	8,638,271	3,861,489	1,485,365	1,092,780	2,198,637
Mutual funds - international	12,297,197	12,297,197	-	-	-
	<u>\$ 38,534,946</u>	<u>\$ 33,758,164</u>	<u>\$ 1,485,365</u>	<u>\$ 1,092,780</u>	<u>\$ 2,198,637</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: COVID-19 Pandemic & CARES Act Funding

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

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

The District's pandemic response plan has multiple facets and continues to evolve as the pandemic unfolds. The District has taken precautionary steps to enhance its operational and financial flexibility, and react to the risks the COVID-19 pandemic presents to its business, including receiving approximately \$25,522,000 of accelerated Medicare payments and approximately \$19,782,000 in general and targeted Provider Relief Fund distributions, both as provided for under the *Coronavirus Aid, Relief, and Economic Security Act* (CARES).

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

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

Provider Relief Fund

During the year ended September 30, 2020, the District received \$19,782,331 of distributions from the CARES Act Provider Relief Fund. These distributions from the Provider Relief Fund are not subject to repayment, provided the District is able to attest to and comply with the terms and conditions of the funding, including demonstrating that the distributions received have been used for qualifying expenses or lost revenue attributable to COVID-19, as defined by the Department of Health and Human Services.

Subsequent to year-end, the District received an additional \$520,000 in Provider Relief Fund distributions.

The District is accounting for such payments as conditional contributions. Payments are recognized as contribution revenue once the applicable terms and conditions required to retain the funds have been met. Based on an analysis of the compliance and reporting requirements of the Provider Relief Fund and the effect of the pandemic on the District's operating revenues and expenses through September 30, 2020, the District recognized \$11,508,325, related to the Provider Relief Fund, and these payments are recorded as nonoperating revenue in our statement of revenues, expenses and changes in net position. The unrecognized amount of Provider Relief Fund distributions are recorded as part of current liabilities in the accompanying balance sheets.

Subsequent to year-end, HHS issued guidance on the use of payments from the Provider Relief Fund. The District considers the guidance issued subsequent to year-end to be substantive changes in guidance rather

Midland County Hospital District

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than clarifications of guidance existing at September 30, 2020. As a result, the amounts recorded in the financial statements compared to the District's Provider Relief Fund reporting could differ. This difference cannot be currently estimated but could be material.

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

Medicare Accelerated and Advanced Payment Program

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

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

During the year ended September 30, 2020, the District received approximately \$25,522,000 from these accelerated Medicare payment requests. The unapplied amount of accelerated Medicare payment requests are recorded in Medicare advance payments in the accompanying balance sheets.

Note 13: Foundation

The Foundation is organized to foster and support the activities and purposes of the healthcare operations division of the District. The board of trustees of the Foundation manages the healthcare operations division under an amended agreement with the District, whereby the healthcare operations division paid an annual management fee to the Foundation of approximately \$1,100,000 for both the years ended September 30, 2020 and 2019.

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, 2020 and 2019, the Foundation made contributions to the District for capital projects and other operating purposes as discussed in *Note 1*.

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

	<u>2020</u>	<u>2019</u>
Restricted - expendable		
Assets available for capital purchases	\$ 21,478,382	\$ 22,630,444
Assets available to fund specific hospital operations	697,484	685,906
Assets available for education and training	<u>654,592</u>	<u>997,416</u>
	<u>22,830,458</u>	<u>24,313,766</u>
Restricted - nonexpendable		
Income available for capital acquisitions	17,640,614	17,198,334
Income available to fund specific hospital operations	33,197,415	33,092,116
Income available for education and training	<u>599,880</u>	<u>558,392</u>
	<u>51,437,909</u>	<u>50,848,842</u>
	<u>\$ 74,268,367</u>	<u>\$ 75,162,608</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.

Note 14: Foundation Investments

Investments at September 30, 2020 and 2019 are comprised of the following with maturities of less than one year:

	<u>2020</u>	<u>2019</u>
Money market and mutual funds	\$ 15,909,087	\$ 17,224,403
Equity securities	<u>28,032,151</u>	<u>29,129,045</u>
	<u>\$ 43,941,238</u>	<u>\$ 46,353,448</u>

Midland County Hospital District
Notes to Financial Statements
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Investment return is comprised of the following for the years ended September 30, 2020 and 2019:

	2020	2019
Investment income	\$ 1,218,857	\$ 1,271,345
Net appreciation on fair value of investments	645,115	(343,336)
	\$ 1,863,972	\$ 928,009

Note 15: Subsequent Events

Subsequent to year end, the District entered into various agreements related to an Energy Asset Concession Arrangement to improve and optimize the related facilities and infrastructure to improve the energy capacity and efficiency at the District. Pursuant to the terms of the lease, the District granted lessee a fifteen-year lease over certain energy infrastructure assets owned by the District in exchange for lessee funding certain energy optimization improvements. Under the lease, lessee paid the District a net advance cash payment of approximately \$16.2 million for the rights to use the energy assets. Also, lessee will fund \$19.4 million in plant improvements to gain the desired efficiency in the District's facility. Lessee will assume all risk and responsibility of District's energy producing assets for the term of the lease while the District will pay lessee a monthly thermal services charge.

Midland County Hospital District
Notes to Financial Statements
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Note 16: 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, 2020 and 2019.

	2020				2019			
	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	\$ 137,425,232	\$ 5,130,176	\$ 2,920,826	\$ 145,476,234	\$ 120,128,596	\$ 5,275,418	\$ 4,925,281	\$ 130,329,295
Noncurrent cash and investments	2,937,573	-	-	2,937,573	3,052,352	-	-	3,052,352
Capital assets, net of accumulated depreciation	232,577,202	628,468	-	233,205,670	228,084,191	760,631	-	228,844,822
Other assets	16,432,226	7,524	-	16,439,750	16,837,161	7,524	-	16,844,685
Total assets	389,372,233	5,766,168	2,920,826	398,059,227	368,102,300	6,043,573	4,925,281	379,071,154
Deferred outflows of resources	5,160,265	-	-	5,160,265	5,650,639	-	-	5,650,639
Total assets and deferred outflows of resources	\$ 394,532,498	\$ 5,766,168	\$ 2,920,826	\$ 403,219,492	\$ 373,752,939	\$ 6,043,573	\$ 4,925,281	\$ 384,721,793
Liabilities and Deferred Inflows of Resources								
Current liabilities	\$ 59,385,429	\$ 7,254,329	\$ 2,920,826	\$ 69,560,584	\$ 47,990,735	\$ 8,779,462	\$ 4,925,281	\$ 61,695,478
Net pension liability	23,393,180	-	-	23,393,180	24,229,609	-	-	24,229,609
Interest rate swap	69,583	-	-	69,583	192,799	-	-	192,799
Accrued self-insurance liabilities	1,825,121	-	-	1,825,121	1,965,357	-	-	1,965,357
Advance Medicare payment	15,737,504	819,624	-	16,557,128	-	-	-	-
Long-term debt	53,915,811	-	-	53,915,811	47,706,259	-	-	47,706,259
General obligation bonds payable	86,315,000	-	-	86,315,000	89,495,000	-	-	89,495,000
Total liabilities	240,641,628	8,073,953	2,920,826	251,636,407	211,579,759	8,779,462	4,925,281	225,284,502
Deferred inflows of resources	2,455,702	-	-	2,455,702	2,357,850	-	-	2,357,850
Net Position								
Net investment in capital assets	102,899,215	628,468	-	103,527,683	94,639,881	760,631	-	95,400,512
Restricted - expendable for capital assets	283,317	-	-	283,317	283,317	-	-	283,317
Restricted - expendable for debt service	3,846,725	-	-	3,846,725	4,264,409	-	-	4,264,409
Unrestricted	44,405,911	(2,936,253)	-	41,469,658	60,627,723	(3,496,520)	-	57,131,203
Total net position	151,435,168	(2,307,785)	-	149,127,383	159,815,330	(2,735,889)	-	157,079,441
Total liabilities, deferred inflows of resources and net position	\$ 394,532,498	\$ 5,766,168	\$ 2,920,826	\$ 403,219,492	\$ 373,752,939	\$ 6,043,573	\$ 4,925,281	\$ 384,721,793

Midland County Hospital District

Notes to Financial Statements

September 30, 2020 and 2019

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, 2020 and 2019.

	2020				2019			
	Midland County Hospital District	501(a) Entities	Nursing Homes	Combined	Midland County Hospital District	501(a) Entities	Nursing Homes	Combined
Operating Revenues								
Net patient care revenues	\$ 243,232,119	\$ 22,767,810	\$ -	\$ 265,999,929	\$ 256,312,915	\$ 25,920,916	\$ -	\$ 282,233,831
Net patient care revenues-Nursing Homes	-	-	24,116,154	24,116,154	-	-	23,524,084	23,524,084
Other income	7,871,279	5,675,966	-	13,547,245	11,011,048	3,840,447	-	14,851,495
Operating revenues	<u>251,103,398</u>	<u>28,443,776</u>	<u>24,116,154</u>	<u>303,663,328</u>	<u>267,323,963</u>	<u>29,761,363</u>	<u>23,524,084</u>	<u>320,609,410</u>
Expenses:								
Salaries and fringe benefits	140,198,735	34,228,963	-	174,427,698	132,979,997	33,475,985	-	166,455,982
Supplies	51,295,670	2,174,022	-	53,469,692	51,448,963	2,778,392	-	54,227,355
Other	53,819,333	9,154,604	-	62,973,937	53,988,580	7,875,658	-	61,864,238
Other-Nursing Homes	-	-	24,116,154	24,116,154	-	-	23,524,084	23,524,084
Depreciation and amortization	25,335,404	342,995	-	25,678,399	23,510,382	392,524	-	23,902,906
Operating expenses	<u>270,649,142</u>	<u>45,900,584</u>	<u>24,116,154</u>	<u>340,665,880</u>	<u>261,927,922</u>	<u>44,522,559</u>	<u>23,524,084</u>	<u>329,974,565</u>
Operating income (loss)	<u>(19,545,744)</u>	<u>(17,456,808)</u>	<u>-</u>	<u>(37,002,552)</u>	<u>5,396,041</u>	<u>(14,761,196)</u>	<u>-</u>	<u>(9,365,155)</u>
Other nonoperating income and expense:								
Ad valorem tax support	39,698,476	-	-	39,698,476	36,326,769	-	-	36,326,769
Investment income	381,585	11	-	381,596	323,201	86	-	323,287
Interest expense	(7,610,156)	(15,895)	-	(7,626,051)	(8,171,206)	(170)	-	(8,171,376)
Build America Bond interest subsidy	1,916,024	-	-	1,916,024	1,983,562	-	-	1,983,562
Contributions to government programs	(14,624,582)	-	-	(14,624,582)	(15,850,000)	-	-	(15,850,000)
Provider relief funds	11,508,325	-	-	11,508,325	-	-	-	-
Other nonoperating revenue, net	(10,077,983)	17,900,796	-	7,822,813	(4,360,651)	13,870,714	-	9,510,063
Nonoperating revenues (expenses)	<u>21,191,689</u>	<u>17,884,912</u>	<u>-</u>	<u>39,076,601</u>	<u>10,251,675</u>	<u>13,870,630</u>	<u>-</u>	<u>24,122,305</u>
Excess (deficiency) of revenues over expenses before distribution to other beneficial owners of partnership and capital grants and gifts	1,645,945	428,104	-	2,074,049	15,647,716	(890,566)	-	14,757,150
Distribution to other beneficial owners of partnership	(21,002,986)	-	-	(21,002,986)	(7,681,582)	-	-	(7,681,582)
Capital grants and gifts	10,976,879	-	-	10,976,879	17,581,664	-	-	17,581,664
Change in net position	(8,380,162)	428,104	-	(7,952,058)	25,547,798	(890,566)	-	24,657,232
Net position - beginning of year	<u>159,815,330</u>	<u>(2,735,889)</u>	<u>-</u>	<u>157,079,441</u>	<u>134,267,532</u>	<u>(1,845,323)</u>	<u>-</u>	<u>132,422,209</u>
Net position - end of year	<u>\$ 151,435,168</u>	<u>\$ (2,307,785)</u>	<u>\$ -</u>	<u>\$ 149,127,383</u>	<u>\$ 159,815,330</u>	<u>\$ (2,735,889)</u>	<u>\$ -</u>	<u>\$ 157,079,441</u>

Midland County Hospital District
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September 30, 2020 and 2019

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, 2020 and 2019.

	2020				2019			
	<u>Midland County Hospital District</u>	<u>501(a) Entities</u>	<u>Nursing Homes</u>	<u>Combined</u>	<u>Midland County Hospital District</u>	<u>501(a) Entities</u>	<u>Nursing Homes</u>	<u>Combined</u>
Net cash provided by (used in) operating activities	\$ 43,800,175	\$ (17,127,962)	\$ 156,842	\$ 26,829,055	\$ 32,265,832	\$ (14,464,439)	\$ 222,542	\$ 18,023,935
Net cash provided by noncapital financing activities	52,444,496	-	-	52,444,496	15,769,732	-	-	15,769,732
Net cash used in capital and related financing activities	(22,425,106)	-	-	(22,425,106)	(21,794,027)	-	-	(21,794,027)
Net cash provided by (used in) investing activities	<u>(60,547,414)</u>	<u>17,900,796</u>	<u>-</u>	<u>(42,646,618)</u>	<u>(16,371,660)</u>	<u>13,870,714</u>	<u>-</u>	<u>(2,500,946)</u>
Net increase (decrease) in cash and cash equivalents	13,272,151	772,834	156,842	14,201,827	9,869,877	(593,725)	222,542	9,498,694
Cash and cash equivalents, beginning of year	<u>16,697,704</u>	<u>164,653</u>	<u>244,875</u>	<u>17,107,232</u>	<u>6,827,827</u>	<u>758,378</u>	<u>22,333</u>	<u>7,608,538</u>
Cash and cash equivalents, end of year	<u>\$ 29,969,855</u>	<u>\$ 937,487</u>	<u>\$ 401,717</u>	<u>\$ 31,309,059</u>	<u>\$ 16,697,704</u>	<u>\$ 164,653</u>	<u>\$ 244,875</u>	<u>\$ 17,107,232</u>

Required Supplementary Information

Midland County Hospital District

Schedule of Changes in the Net Pension Liability and Related Ratios

	2020	2019	2018	2017	2016	2015
Total pension liability						
Interest	\$ 4,827,745	\$ 4,806,322	\$ 4,837,438	\$ 4,840,667	\$ 4,803,747	\$ 4,497,604
Differences between expected and actual experience	163,726	3,289	(954,754)	94,028	(424,609)	(20,677)
Changes of assumptions	(542,270)	(127,926)	-	(1,025,940)	(111,971)	2,786,166
Benefit payments, including refunds of employee contributions	(4,727,101)	(4,290,156)	(4,143,522)	(3,801,415)	(3,626,455)	(3,347,151)
Net change in total pension liability	(277,900)	391,529	(260,838)	107,340	640,712	3,915,942
Total pension liability—beginning	62,764,555	62,373,026	62,633,864	62,526,524	61,885,812	57,969,870
Total pension liability—ending (a)	<u>\$ 62,486,655</u>	<u>\$ 62,764,555</u>	<u>\$ 62,373,026</u>	<u>\$ 62,633,864</u>	<u>\$ 62,526,524</u>	<u>\$ 61,885,812</u>
Plan fiduciary net position						
Contributions—employer	\$ 2,167,000	\$ 1,850,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000	\$ 2,500,000
Net investment income	3,118,630	1,691,091	2,823,904	3,224,620	3,330,578	(1,539,128)
Benefit payments, including refunds of employee contributions	(4,727,101)	(4,290,156)	(4,143,522)	(3,801,415)	(3,626,455)	(3,347,151)
Net change in plan fiduciary net position	558,529	(749,065)	1,180,382	1,923,205	2,204,123	(2,386,279)
Plan fiduciary net position—beginning	38,534,946	39,284,011	38,103,629	36,180,424	33,976,301	36,362,580
Plan fiduciary net position—ending (b)	<u>\$ 39,093,475</u>	<u>\$ 38,534,946</u>	<u>\$ 39,284,011</u>	<u>\$ 38,103,629</u>	<u>\$ 36,180,424</u>	<u>\$ 33,976,301</u>
Net pension liability—ending (a) – (b)	<u>\$ 23,393,180</u>	<u>\$ 24,229,609</u>	<u>\$ 23,089,015</u>	<u>\$ 24,530,235</u>	<u>\$ 26,346,100</u>	<u>\$ 27,909,511</u>
Plan fiduciary net position as a percentage of the total pension liability	62.56%	61.40%	62.98%	60.84%	57.86%	54.90%
Covered-employee payroll	N/A	N/A	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	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>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Actuarially determined contribution	\$ 2,050,502	\$ 2,166,580	\$ 1,842,470	\$ 1,950,036	\$ 1,996,818	\$ 1,785,418
Contributions in relation to the actuarially determined contribution	<u>2,167,000</u>	<u>1,850,000</u>	<u>2,500,000</u>	<u>2,500,000</u>	<u>2,500,000</u>	<u>2,500,000</u>
Contribution deficiency (excess)	<u>\$ (116,498)</u>	<u>\$ 316,580</u>	<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	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	N/A	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	N/A
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 Information

Midland County Hospital District

Divisional Balance Sheets

September 30, 2020 and 2019

	The District		Premier Family Care		Permian Cardiology, Inc.		Midland, Texas Orthopedic Group, Inc.		Midland Inpatient Medical Associates		Nursing Homes		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Assets and Deferred Outflows of Resources														
Current assets														
Cash and cash equivalents	\$ 28,186,538	\$ 14,914,387	\$ 449,390	\$ 225,770	\$ 192,912	\$ 73,042	\$ 266,060	\$ 33,801	\$ 29,125	\$ (167,960)	\$ -	\$ -	\$ 29,124,025	\$ 15,079,040
Cash and cash equivalents - Nursing Homes	-	-	-	-	-	-	-	-	-	-	401,717	244,875	401,717	244,875
Cash designated for capital projects	283,317	283,317	-	-	-	-	-	-	-	-	-	-	283,317	283,317
Short-term investments	39,971,015	9,602,165	-	-	-	-	-	-	-	-	-	-	39,971,015	9,602,165
Property tax receivable, net	932,718	742,348	-	-	-	-	-	-	-	-	-	-	932,718	742,348
Patient accounts receivable, less allowance for doubtful accounts	28,003,089	37,255,493	1,655,636	1,960,385	420,307	181,709	743,404	827,432	361,082	270,295	-	-	31,183,518	40,495,314
Patient accounts receivable-Nursing Homes, net	-	-	-	-	-	-	-	-	-	-	2,519,109	4,680,406	2,519,109	4,680,406
Supplies	9,884,210	8,015,276	-	-	-	-	-	414,742	371,915	-	-	-	10,298,952	8,387,191
Prepaid expenses	10,915,816	2,298,074	185,085	244,283	-	-	-	132,197	55,834	69,184	-	-	11,156,735	2,743,738
Other receivables	6,674,119	23,078,535	307,104	747,516	49,495	194,642	-	54,372	-	56,835	-	-	7,030,718	24,131,900
Estimated amounts due from third-party payers	9,961,234	20,889,728	-	-	-	-	-	-	-	-	-	-	9,961,234	20,889,728
Self-funded insurance funds, current	266,451	284,864	-	-	-	-	-	-	-	-	-	-	266,451	284,864
Investments designated for bond indenture	2,346,725	2,764,409	-	-	-	-	-	-	-	-	-	-	2,346,725	2,764,409
Total current assets	137,425,232	120,128,596	2,597,215	3,177,954	662,714	449,393	1,424,206	1,419,717	446,041	228,354	2,920,826	4,925,281	145,476,234	130,329,295
Noncurrent cash and investments														
Restricted under debt agreement	1,500,000	1,500,000	-	-	-	-	-	-	-	-	-	-	1,500,000	1,500,000
Self-funded insurance funds	1,437,573	1,552,352	-	-	-	-	-	-	-	-	-	-	1,437,573	1,552,352
Total noncurrent cash and investments	2,937,573	3,052,352	-	-	-	-	-	-	-	-	-	-	2,937,573	3,052,352
Capital assets, net of accumulated depreciation	232,577,202	228,084,191	539,383	713,113	7,677	63,103	81,408	(15,585)	-	-	-	-	233,205,670	228,844,822
Other assets	16,432,226	16,837,161	7,524	7,524	-	-	-	-	-	-	-	-	16,439,750	16,844,685
Total assets	389,372,233	368,102,300	3,144,122	3,898,591	670,391	512,496	1,505,614	1,404,132	446,041	228,354	2,920,826	4,925,281	398,059,227	379,071,154
Deferred outflows of resources	5,160,265	5,650,639	-	-	-	-	-	-	-	-	-	-	5,160,265	5,650,639
Total assets and deferred outflows of resources	\$ 394,532,498	\$ 373,752,939	\$ 3,144,122	\$ 3,898,591	\$ 670,391	\$ 512,496	\$ 1,505,614	\$ 1,404,132	\$ 446,041	\$ 228,354	\$ 2,920,826	\$ 4,925,281	\$ 403,219,492	\$ 384,721,793
Liabilities and Deferred Inflows of Resources														
Current liabilities														
Accounts payable and accrued liabilities	\$ 17,111,244	\$ 23,570,161	\$ 844,429	\$ 571,764	\$ 440,325	\$ 592,954	\$ 1,685,125	\$ 1,885,488	\$ 1,043,594	\$ 1,926,373	\$ -	\$ -	\$ 21,124,717	\$ 28,546,740
Accounts payable and accrued liabilities - Nursing Homes	-	-	-	-	-	-	-	-	-	-	2,920,826	4,925,281	2,920,826	4,925,281
Accrued interest payable	2,292,012	2,329,255	-	-	-	-	-	-	-	-	-	-	2,292,012	2,329,255
Accrued payroll	10,084,636	9,589,983	448,637	1,429,369	584,520	511,217	840,775	631,178	940,827	1,231,119	-	-	12,899,395	13,392,866
Accrued self-insurance liabilities	1,756,088	1,424,476	-	-	-	-	-	-	-	-	-	-	1,756,088	1,424,476
Advance Medicare payments	8,538,279	-	158,487	-	99,739	-	79,889	-	87,982	-	-	-	8,964,376	-
Unearned revenue - provider relief funds	8,274,006	-	-	-	-	-	-	-	-	-	-	-	8,274,006	-
Current maturities of general obligation bonds payable	3,180,000	3,065,000	-	-	-	-	-	-	-	-	-	-	3,180,000	3,065,000
Current maturities of long-term debt	8,149,164	8,011,860	-	-	-	-	-	-	-	-	-	-	8,149,164	8,011,860
Total current liabilities	59,385,429	47,990,735	1,451,553	2,001,133	1,124,584	1,104,171	2,605,789	2,516,666	2,072,403	3,157,492	2,920,826	4,925,281	69,560,584	61,695,478
Net pension liability	23,393,180	24,229,609	-	-	-	-	-	-	-	-	-	-	23,393,180	24,229,609
Interest rate swap	69,583	192,799	-	-	-	-	-	-	-	-	-	-	69,583	192,799
Accrued self-insurance liabilities	1,825,121	1,965,357	-	-	-	-	-	-	-	-	-	-	1,825,121	1,965,357
Advance Medicare payments	15,737,504	-	325,359	-	184,210	-	147,553	-	162,502	-	-	-	16,557,128	-
Long-term debt	53,915,811	47,706,259	-	-	-	-	-	-	-	-	-	-	53,915,811	47,706,259
General obligation bonds payable	86,315,000	89,495,000	-	-	-	-	-	-	-	-	-	-	86,315,000	89,495,000
Total liabilities	240,641,628	211,579,759	1,776,912	2,001,133	1,308,794	1,104,171	2,753,342	2,516,666	2,234,905	3,157,492	2,920,826	4,925,281	251,636,407	225,284,502
Deferred inflows of resources	2,455,702	2,357,850	-	-	-	-	-	-	-	-	-	-	2,455,702	2,357,850
Net Position														
Net investment in capital assets	102,899,215	94,639,881	539,383	713,113	7,677	63,103	81,408	(15,585)	-	-	-	-	103,527,683	95,400,512
Restricted - expendable for capital assets	283,317	283,317	-	-	-	-	-	-	-	-	-	-	283,317	283,317
Restricted - expendable for debt service	3,846,725	4,264,409	-	-	-	-	-	-	-	-	-	-	3,846,725	4,264,409
Unrestricted	44,405,911	60,627,723	827,827	1,184,345	(646,080)	(654,778)	(1,329,136)	(1,096,949)	(1,788,864)	(2,929,138)	-	-	41,469,658	57,131,203
Total net position	151,435,168	159,815,330	1,367,210	1,897,458	(638,403)	(591,675)	(1,247,728)	(1,112,534)	(1,788,864)	(2,929,138)	-	-	149,127,383	157,079,441
Total liabilities, deferred inflows of resources and net position	\$ 394,532,498	\$ 373,752,939	\$ 3,144,122	\$ 3,898,591	\$ 670,391	\$ 512,496	\$ 1,505,614	\$ 1,404,132	\$ 446,041	\$ 228,354	\$ 2,920,826	\$ 4,925,281	\$ 403,219,492	\$ 384,721,793

Midland County Hospital District

Divisional Schedule of Revenues, Expenses and Changes in Net Position

Years Ended September 30, 2020 and 2019

	The District		Premier Family Care		Permian Cardiology, Inc.		Midland, Texas Orthopedic Group, Inc.		Midland Inpatient Medical Associates		Nursing Homes		Total	
	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019	2020	2019
Operating revenues														
Net patient care revenues	\$ 243,232,119	\$ 256,312,915	\$ 11,364,349	\$ 15,725,837	\$ 3,033,911	\$ 3,142,097	\$ 5,718,912	\$ 5,370,241	\$ 2,650,638	\$ 1,682,741	\$ -	\$ -	\$ 265,999,929	\$ 282,233,831
Net patient care revenues - Nursing Homes	-	-	-	-	-	-	-	-	-	-	24,116,154	23,524,084	24,116,154	23,524,084
Other income	7,871,279	11,011,048	4,581,583	3,196,660	668,671	587,169	276,143	56,613	149,569	5	-	-	13,547,245	14,851,495
Total operating revenues	251,103,398	267,323,963	15,945,932	18,922,497	3,702,582	3,729,266	5,995,055	5,426,854	2,800,207	1,682,746	24,116,154	23,524,084	303,663,328	320,609,410
Operating expenses														
Salaries and benefits	140,198,735	132,979,997	14,553,649	14,739,116	5,099,097	4,234,262	8,262,572	7,181,106	6,313,645	7,321,501	-	-	174,427,698	166,455,982
Supplies	51,295,670	51,448,963	1,365,516	1,797,113	241,937	281,757	563,186	692,058	3,383	7,464	-	-	53,469,692	54,227,355
Other	53,819,333	53,988,580	4,840,652	4,506,151	961,532	945,031	1,619,733	1,670,466	1,732,687	754,010	-	-	62,973,937	61,864,238
Other - Nursing Homes	-	-	-	-	-	-	-	-	-	-	24,116,154	23,524,084	24,116,154	23,524,084
Depreciation and amortization	25,335,404	23,510,382	356,656	342,488	1,924	3,731	(15,585)	46,305	-	-	-	-	25,678,399	23,902,906
Total operating expenses	270,649,142	261,927,922	21,116,473	21,384,868	6,304,490	5,464,781	10,429,906	9,589,935	8,049,715	8,082,975	24,116,154	23,524,084	340,665,880	329,974,565
Operating income (loss)	(19,545,744)	5,396,041	(5,170,541)	(2,462,371)	(2,601,908)	(1,735,515)	(4,434,851)	(4,163,081)	(5,249,508)	(6,400,229)	-	-	(37,002,552)	(9,365,155)
Nonoperating revenues (expenses)														
Ad valorem tax support	39,698,476	36,326,769	-	-	-	-	-	-	-	-	-	-	39,698,476	36,326,769
Investment income	381,585	323,201	11	86	-	-	-	-	-	-	-	-	381,596	323,287
Interest expense	(7,610,156)	(8,171,206)	(15,895)	(170)	-	-	-	-	-	-	-	-	(7,626,051)	(8,171,376)
Build America Bond interest subsidy	1,916,024	1,983,562	-	-	-	-	-	-	-	-	-	-	1,916,024	1,983,562
Contributions to government programs	(14,624,582)	(15,850,000)	-	-	-	-	-	-	-	-	-	-	(14,624,582)	(15,850,000)
Provider relief funds revenue	11,508,325	-	-	-	-	-	-	-	-	-	-	-	11,508,325	-
Other nonoperating revenue, net	(10,077,983)	(4,360,651)	4,656,177	3,373,231	2,555,180	1,484,991	4,299,657	3,061,237	6,389,782	5,951,255	-	-	7,822,813	9,510,063
Total nonoperating revenues (expenses)	21,191,689	10,251,675	4,640,293	3,373,147	2,555,180	1,484,991	4,299,657	3,061,237	6,389,782	5,951,255	-	-	39,076,601	24,122,305
Excess (deficiency) of revenues over expenses before distribution to other beneficial owners of partnership and capital grants and gifts	1,645,945	15,647,716	(530,248)	910,776	(46,728)	(250,524)	(135,194)	(1,101,844)	1,140,274	(448,974)	-	-	2,074,049	14,757,150
Distribution to other beneficial owners of partnership	(21,002,986)	(7,681,582)	-	-	-	-	-	-	-	-	-	-	(21,002,986)	(7,681,582)
Capital grants and gifts	10,976,879	17,581,664	-	-	-	-	-	-	-	-	-	-	10,976,879	17,581,664
Change in net position	(8,380,162)	25,547,798	(530,248)	910,776	(46,728)	(250,524)	(135,194)	(1,101,844)	1,140,274	(448,974)	-	-	(7,952,058)	24,657,232
Net position - beginning of year	159,815,330	134,267,532	1,897,458	986,682	(591,675)	(341,151)	(1,112,534)	(10,690)	(2,929,138)	(2,480,164)	-	-	157,079,441	132,422,209
Net position - end of year	\$ 151,435,168	\$ 159,815,330	\$ 1,367,210	\$ 1,897,458	\$ (638,403)	\$ (591,675)	\$ (1,247,728)	\$ (1,112,534)	\$ (1,788,864)	\$ (2,929,138)	\$ -	\$ -	\$ 149,127,383	\$ 157,079,441