CONCHO COUNTY HOSPITAL DISTRICT
EDEN, TEXAS

For the Years Ended September 30, 2016 and 2015

DURBIN & COMPANY, L. L. P.

Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Management and the Board of Directors
Concho County Hospital District
Eden, Texas

We have audited the accompanying financial statements of Concho County Hospital District, (the "District") as of and for the years ended September 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's statements of net position, and related statements of revenues, expenses and changes in net position and statements of cash flows.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Concho County Hospital District, as of September 30, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and defined benefit plan information on pages A-1 through A-5 and pages 27 through 29, respectively, 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.

Durbin & Company, L.L.P.

Durbin & Company, L. L. P.
Lubbock, Texas
May 26, 2017

CONCHO COUNTY HOSPITAL DISTRICT
EDEN, TEXAS

Management's Discussion and Analysis

For the Years Ended September 30, 2016 and 2015

CONCHO COUNTY HOSPITAL DISTRICT
MANAGEMENT DISCUSSION AND ANALYSIS
AND FINANCIAL STATEMENTS

FOR FISCAL YEARS ENDED SEPTEMBER 30, 2016 AND 2015
UNAUDITED

Our discussion and analysis of Concho County Hospital District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal years ended September 30, 2016 and 2015. Please read it in conjunction with the District's financial statements, which begin on page.

FINANCIAL HIGHLIGHTS

- The District's net position reflects a $438,878 or 4.1% increase in 2016 and a $959,483 or 9.8% increase in 2015.

- The District reported operating losses in 2016 and 2015 of ($447,660) and ($62,481), respectively. The operating loss in 2016 had an unfavorable increase of ($385,179) over losses reported in 2015.

- Nonoperating revenues (expenses) decreased ($135,426) or 13.3%, in 2016, compared to 2015. In 2015, nonoperating revenues (expenses) decreased (43,394) or 4.1% as compared to 2014.

USING THIS ANNUAL REPORT

The District's financial statements consist of three statements, a Statement of Net Position; a Statement of Revenues, Expenses and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the District, including resources held by the District but restricted for specific purposes by contributors, grantors, and enabling legislation.

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

Our analysis of the District's finances begins on page A-2. One of the most important questions asked about the District's finances is, "Is the District as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the District's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. You can think of the District's net position—the difference between assets and liabilities—as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the District's patient base and measures of the quality of service it provides to the community, as well as local economic factors to access the overall health of the District.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing 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 balance during the reporting period?"

THE DISTRICT'S NET POSITION

The District's net position is the difference between its assets and liabilities reported in the Statement of Net Position on page 1 and 2. The District's net position increased by $438,878 or 4.1% in 2016 and increased by $959,483 or 9.8%in 2015, as you can see from **Table 1**.

Table 1: Assets, Liabilities, and Net Position

	2016	2015	2014
Assets:			
Current Assets	$ 6,558,860	$ 6,064,770	$ 6,182,677
Capital Assets (net)	5,771,199	5,875,529	4,194,188
Deferred Outflows of Resources	317,903	108,722	-
Total Assets and Deferred Outflows of Resources	$ 12,647,962	$ 12,049,021	$ 10,376,865
Liabilities:			
Long-Term Debt Outstanding	$ 839,525	$ 869,290	$ 328,796
Other Current and Non-Current	576,305	400,588	303,393
Deferred Inflows of Resources	15,196	1,085	-
Total Liabilities and Deferred Inflows of Resources	1,431,026	1,270,963	632,189
Total Net Position	11,216,936	10,778,058	9,744,676
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 12,647,962	$ 12,049,021	$ 10,376,865

Total assets and deferred outflows of resources increased by $598,941 or 5% in 2016, mainly due to an increase in prepaid and other current assets and deferred outflows of resources. Total liabilities and deferred inflows of resources increased $160,063 or 12.6% in 2016, due to an increase in accounts payable.

OPERATING RESULTS AND CHANGES IN THE DISTRICT'S NET POSITION

The District's net position increased by $438,878 and $959,483 in 2016 and 2015, respectively. This change is made up of very different components, as you can see from **Table 2**.

Table 2: Operating Results and Changes in Net Position

	2016	2015	2014
Operating Revenues:			
Net Patient Service Revenue	$ 7,636,756	$ 6,635,002	$ 5,093,793
Delivery System Reform Incentive Program	160,407	290,984	-
Other Operating Revenue	79,225	105,924	49,005
Total Operating Revenue	7,876,388	7,031,910	5,142,798
Operating Expenses:			
Salaries, Benefits and Payroll Taxes	3,716,940	3,207,137	2,838,973
Other Operating Expenses	4,042,549	3,487,079	2,679,067
Depreciation / Amortization	564,559	400,175	397,552
Total Operating Expenses	8,324,048	7,094,391	5,915,592
Operating Income (Loss)	(447,660)	(62,481)	(772,794)
Nonoperating Revenues and Expenses:			
Property Tax Revenue	697,957	722,640	690,914
Noncapital Grants and Contributions	-	-	18,101
Community Benefit Support	657,845	941,232	935,719
Intergovernmental Transfer	(466,230)	(667,262)	(602,767)
Investment Income	11,299	12,380	12,935
Interest Expense	(25,133)	(2,450)	(3,420)
Other	10,800	15,424	13,876
Total Nonoperating Revenues (Expenses)	886,538	1,021,964	1,065,358
Increase (Decrease) in Net Position	438,878	959,483	292,564
Net Position, Beginning of Year, as Originally Reported	10,778,058	9,744,676	9,452,112
Adjustment for Change in Accounting Principle	-	73,899	-
Net Position, Beginning of Year, as Restated	10,778,058	9,818,575	9,452,112
Net Position, End of Year	$ 11,216,936	$ 10,778,058	$ 9,744,676

Operating Income (Loss)

The first component of the overall change in the District's net position is its operating income (loss) generally, the difference between net patient service revenues and the expenses incurred to perform those services. The District reported an operating loss in 2016 and 2015 of ($447,660) and ($62,481), respectively.

The primary components of the increased operating loss in 2016 are:

- Increase in net patient service revenue of $1,001,754 or 15.1%.
- Increase in salaries, benefits, and payroll taxes of $509,803 or 15.9%.
- Increase in other operating expenses of $555,470 or 15.9%.
- Increase in depreciation expense of $164,384 or 41.1%.
- Decrease in delivery systems reform incentive program revenue of (130,577) or (44.9%).

The primary components of the decreased operating loss in 2015 are:

- Increase in net patient service revenue of $1,541,209 or 30.3%.
- Increase in salaries and benefits of $368,164 or 13.0%.
- Increase in other operating revenue of $347,903 or 709.9%.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of tax district revenue, community benefit support, related intergovernmental transfer and interest expense.

THE DISTRICT'S CASH FLOWS

Changes in the District's cash flows are consistent with changes in operating income (loss) and nonoperating revenues and expenses, discussed earlier.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2016 and 2015, the District had $5,771,199 and $5,875,529, respectively, invested in capital asset, net of accumulated depreciation, as detailed in Note 8 of the financial statements. The District acquired capital assets in the amount of $463,170 and $2,081,516 in 2016 and 2015, respectively. Depreciation expense totaled $564,559 and $400,175 in 2016 and 2015, respectively.

Debt

At September 30, 2016 the District had long-term debt outstanding of $670,496 and $850,947, respectively, as detailed in Note 9 of the financial statements. During fiscal year 2016 and 2015, the District made payments of $180,451 and $52,796, respectively, on outstanding debt.

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. If you have any questions about this report or need additional financial information, contact, Brian Lady, Administrator/CEO at Concho County Hospital District, 614 Eaker St., Eden, TX 76837.

CONCHO COUNTY HOSPITAL DISTRICT
EDEN, TEXAS

Financials

For the Years Ended September 30, 2016 and 2015

CONCHO COUNTY HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

SEPTEMBER 30, 2016 AND 2015

ASSETS:	2016	2015
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,586,441	$ 1,683,194
Short-Term Investments	2,589,607	2,584,797
Patient Accounts Receivable, Net of Allowance	714,903	638,450
Estimated Third-Party Payor Settlements	618,972	469,542
Other Receivables	209,185	327,682
Inventory of Supplies	135,951	129,664
Prepaid and Other Current Assets	696,625	223,931
Property Taxes Receivable	7,176	7,510
Total Current Assets	6,558,860	6,064,770
NONCURRENT ASSETS		
Land	3,180	3,180
Depreciable Capital Assets, Net	5,768,019	5,872,349
Total Noncurrent Assets	5,771,199	5,875,529
Total Assets	12,330,059	11,940,299
DEFERRED OUTFLOWS OF RESOURCES		
Difference Between Projected and Actual Earnings	192,368	26,417
Contributions Made Subsequent to Measurement Date	93,260	82,305
Changes In Assumption	32,275	-
Total Deferred Outflows of Resources	317,903	108,722
Total Assets and Deferred Outflows of Resources	$ 12,647,962	$ 12,049,021

The accompanying notes are an integral part of these financial statements.

CONCHO COUNTY HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

SEPTEMBER 30, 2016 AND 2015

LIABILITIES AND NET POSITION:	2016	2015
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 184,037	$ 181,251
Accounts Payable	347,045	126,185
Accrued Payroll, Benefits, and Related Liabilities	197,955	259,312
Estimated Third-Party Payor Settlements	-	2,302
Other Accrued Liabilities	31,305	12,789
Total Current Liabilities	760,342	581,839
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Portion	486,459	669,696
Net Pension Liability	169,029	18,343
Total Noncurrent Liabilities	655,488	688,039
Total Liabilities	1,415,830	1,269,878
DEFERRED INFLOWS OF RESOURCES		
Differences Between Expected and Actual Experience	15,196	1,085
NET POSITION		
Net Investment in Capital Assets	5,100,703	5,024,582
Unrestricted	6,116,233	5,753,476
Total Net Position	11,216,936	10,778,058
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 12,647,962	$ 12,049,021

The accompanying notes are an integral part of these financial statements.

CONCHO COUNTY HOSPITAL DISTRICT

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
OPERATING REVENUES:		
Net Patient Service Revenue	$ 7,636,756	$ 6,635,002
Delivery System Reform Incentive Program	160,407	290,984
Other Revenue	79,225	105,924
Total Operating Revenues	7,876,388	7,031,910
OPERATING EXPENSES:		
Salaries	3,150,286	2,671,876
Employee Benefits and Payroll Taxes	566,654	535,261
Professional Fees and Purchased Services	957,799	1,071,779
Supplies	2,564,997	2,002,745
Other Operating	519,753	412,555
Depreciation and Amortization	564,559	400,175
Total Operating Expenses	8,324,048	7,094,391
Operating Income (Loss)	(447,660)	(62,481)
NONOPERATING REVENUES (EXPENSES):		
Property Tax Revenue	697,957	722,640
Community Benefit Support	657,845	941,232
Intergovernmental Transfer	(466,230)	(667,262)
Investment Income	11,299	12,380
Interest Expense	(25,133)	(2,450)
Other Non Operating Revenue	10,800	15,424
Total Nonoperating Revenues (Expenses)	886,538	1,021,964
Increase (Decrease) in Net Position	438,878	959,483
Net Position, Beginning of Year, as Originally Reported	10,778,058	9,744,676
Adjustment for Change in Accounting Principle	-	73,899
Net Position, Beginning of Year, as Restated	10,778,058	9,818,575
Net Position, End of Year	$ 11,216,936	$ 10,778,058

The accompanying notes are an integral part of these financial statements.

CONCHO COUNTY HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from and on Behalf of Patients	$ 7,408,571	$ 6,266,363
Other Receipts and Payments, net	376,645	259,274
Payments to Suppliers and Contractors	(2,924,038)	(2,516,994)
Payments to Employees	(3,987,478)	(3,182,354)
Net cash provided by (used by) operating activities	873,700	826,289
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Earnings	11,299	12,380
Purchase of Investments	(4,810)	(4,966)
Net Cash Provided by (Used by) Investing Activities	6,489	7,414
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt and Notes Payable	(180,451)	(52,796)
Interest Payments on Long-Term Debt and Notes Payable	(25,133)	(143,596)
Purchase of Capital Assets	(460,229)	(1,365,423)
Net Cash Used by Capital and Related Financing Activities	(665,813)	(1,561,815)
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES		
Property Taxes	698,291	731,174
Payments for Intergovernmental Transfers	(1,020,220)	(780,761)
Other	10,800	15,424
Net Cash Provided by (Used in) Noncapital Financing Activities	(311,129)	(34,163)
Net Increase (Decrease) in Cash and Cash Equivalents	(96,753)	(762,275)
Cash and Cash Equivalents, Beginning of Year	1,683,194	2,445,469
Cash and Cash Equivalents, End of Year	$ 1,586,441	$ 1,683,194

The accompanying notes are an integral part of these financial statements.

CONCHO COUNTY HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS (CONTINUED)

FOR THE YEARS ENDED SEPTEMBER 30, 2016 AND 2015

	2016	2015
RECONCILIATION OF CASH AND EQUIVALENTS TO STATEMENTS OF NET POSITION:		
Cash and equivalents presented under the following titles:		
Cash and Cash Equivalents	$ 1,586,441	$ 1,683,194
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income (Loss)	$ (447,660)	$ (62,481)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided by Operating Activities:		
Provision for Bad Debt	603,886	899,422
Depreciation and Amortization	564,559	400,175
Community Benefit Support	657,845	941,232
(Increase) Decrease in:		
Accounts Receivable	(680,339)	(828,938)
Prepaid Expenses and Other Current Assets	193,506	(163,813)
Estimated Third-Party Payor Settlements	(151,732)	(439,123)
Deferred Outflows of Resources	(209,181)	5,107
Increase (Decrease) in:		
Accounts Payable	220,860	35,639
Accrued Salaries and Benefits Payable	(61,357)	59,606
Other Accrued Liabilities	18,516	(35)
Net Pension Liability	150,686	(20,285)
Deferred Inflows of Resources	14,111	(217)
Net Cash Provided By (Used in) Operating Activities	$ 873,700	$ 826,289
Supplemental disclosure of noncash investing and financing activities		
Cost of New Equipment Under Capital Lease	$ -	$ 574,947

The accompanying notes are an integral part of these financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization – Concho County Hospital District (the "District") is an acute care hospital located in Eden, Texas. The District was created by and operates under the laws of the State of Texas. Operations consist of a 20 bed hospital, administered through a seven-member Board of Directors elected by the citizens of the county.

Enterprise Fund Accounting - The District uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus. The District has elected to apply the provisions based on Governmental Accounting Standards Board (GASB) Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement.* The District has also elected to apply the provisions of Governmental Accounting Standards Board (GASB) Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position.*

Newly Adopted Accounting Pronouncements:

GASB Statement No. 68 – The District has implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27.* The Statement objective is to improve accounting and financial reporting by pension plan sponsors. The Statement requires recognition of the entire net pension asset and a more comprehensive measure of pension expense and new footnote disclosures and required supplementary information. The cumulative effect of the implementation of this Statement has been applied to the District's financial statements.

GASB Statement No. 71 - The District has implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68.* The Statement requires employer contributions made between the measurement date, which is the date used to determine an employer's net pension asset or liability, and the employer's fiscal year-end be reported as a deferred outflow of resources. The cumulative effect of the implementation of this Statement has been applied to the District's financial statements.

GASB Statement No. 76 – The District has implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments.* The objective of this Statement is to improve accounting and financial reporting by raising the category of GASB Implementation Guides in the hierarchy of generally accepted accounting principles used to prepare financial statements of state and local governmental entities. (The implementation of this Statement did not affect the change in net position in 2016 and 2015.)

GASB Statement No. 77 – The District has implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 77, *Tax Abatement Disclosures*. The objective of this Statement is to provide financial statement users with essential information about the nature and magnitude of the reduction in tax revenues through tax abatement programs. The implementation of this Statement did not affect the change in net position in 2016 and 2015.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pending Adoption of Recent Accounting

GASB Statement No. 82 - The District has implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73.* This Statement improves the consistency in the application of pension accounting and financial reporting requirements by addressing certain issues that have been raised with respect to GASB statements No. 67, No. 68, and No. 73. GASB 82 is effective for fiscal years beginning after June 15, 2016, with early implementation encouraged.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the end of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents – The District considers highly liquid investments with an original maturity of three months or less to be cash equivalents.

Patient Accounts Receivable - The allowance for estimated uncollectible patient accounts receivable is maintained at a level which, in management's judgment, is adequate to absorb patient account balance write-offs inherent in the billing process. The amount of the allowance is based on management's evaluation of the collectability of patient accounts receivable, including the nature of the accounts, credit concentrations, trends in historical write-off experience, specific impaired accounts, and economic conditions. Allowances for uncollectibles and contractuals are generally determined by applying historical percentages to financial classes within accounts receivable. The allowances are increased by a provision for bad debt expenses and contractual adjustments, and reduced by write-offs, net of recoveries.

Inventory of Supplies - Inventory is stated at the lower of cost or market on the First-In, First-Out (FIFO) method.

Short-Term Investments - The District's short-term investments are stated at fair value and are comprised of certificates of deposits, which mature within the next fiscal year.

Capital Assets – Capital Assets are carried at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. The District provides for depreciation of capital assets by the straight-line method and at rates promulgated by the American Hospital Association, which are designed to amortize the cost of such equipment over its useful life. Equipment under capital lease

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

obligations is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment life. Such amortization is included in depreciation and amortization in the financial statements. Except for capital assets acquired through gifts, contributions, or capital grants, interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets. The District's capitalization policy states that assets with a value greater than $5,000 and a useful life described below will be capitalized. The following are a range of useful lives used by asset class:

Land Improvements	15 to 20 years
Building (Components)	5 to 50 years
Fixed Equipment	7 to 25 years
Major Moveable Equipment	3 to 20 years

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

Deferred Outflows/Inflows of Resources - Transactions not meeting the definition of an asset or liability that result in the consumption or acquisition of net position in one period that are applicable to future periods are reported as deferred outflows of resources and deferred inflows of resources, respectively.

Net Position – Net position of the District is classified in two components. Net position invested in capital assets consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings used to finance the purchase or construction of those assets. Unrestricted net position is remaining net position that does not meet the definition of net invested in capital assets or restricted.

Operating Revenues and Expenses – For purposes of display, the District's statements of revenues, expenses and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services – the District's principal activity. Nonexchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Federal Income Taxes - The District is a tax-exempt organization; therefore, no expense has been provided for income taxes in the accompanying financial statements.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Charity Care - The District provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Management's policy for the provision of charity care is to request proof of income and personal property values, proof of Concho, County residency, number of household members, other benefits received, and other pertinent information. The District applies Federal Poverty Guidelines to determine patient eligibility and performs an application review every six months after approval. Because the District does not pursue the collection of amounts determined to qualify as charity care, charity care is excluded from net patient revenue.

Grants and Contributions - From time to time, the District receives grants from the state as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Property Taxes – The District received approximately 8 percent of its financial support from property taxes for the years ended September 30, 2016 and 2015. These taxes are collected by the Concho County Appraisal District and are remitted to the District when received. The District's taxes are levied and become collectible from October 1 to January 31 of the succeeding year. The taxes are based on the assessed values listed as of the prior January 1, which is the due date a lien attaches to the taxable property. Revenue from property taxes is recognized in the year in which the taxes are levied. The District provides an allowance for uncollectible taxes based on historical collection information.

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 disaster; and employee health, dental and accidental benefits. The District has commercial insurance coverage for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Reclassifications – Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 financial statements presentation. These reclassifications had no effect on the change in net position.

NOTE 2 - NET PATIENT SERVICE REVENUE

The District has agreements with third-party payors that provide for payments to the District at amounts different from its established rates. A summary of the payment arrangements with major third-party payers follows:

Medicare and Medicaid – The District is a Critical Access Hospital. Thus, inpatient acute care services, certain inpatient non-acute care services, and outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The District is reimbursed for cost

NOTE 2 - NET PATIENT SERVICE REVENUE (CONTINUED)

reimbursable items at a tentative rate with final settlement determined after submission of annual cost reports by the District and audits thereof by the Medicare fiscal intermediary.

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

Net patient service revenue is comprised as follows:

	2016	2015
Routine Patient Services	$ 259,622	$ 248,526
Ancillary Patient Services		
Inpatient	516,262	477,415
Outpatient	8,206,103	7,093,527
Gross Patient Service Revenue	8,981,987	7,819,468
Charity	(54,776)	(17,991)
Third-Party Contractual Adjustments	(943,429)	(506,520)
Provision for Bad Debts	(603,886)	(899,422)
Medicaid Supplemental Payments & Other Credits	256,860	239,467
Net Patient Service Revenue	$ 7,636,756	$ 6,635,002

Estimated Third-Party Payor Settlements - Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Anticipated final settlement amounts from current and prior years' cost reports are recorded in the financial statements as they are determined by the District. Estimated third-party payor settlements recorded in the statements of net position at September 30, 2016 and 2015 are $618,972 and $467,240, respectively.

Charity Care - The value of charity care provided by the District based upon its established rates, was $54,776 and $17,991 in 2016 and 2015, respectively. ASU 2010-23 requires charity care to be disclosed on a cost basis. The District utilizes the cost to charge ratios, as calculated based on its most recent cost reports, to determine the total cost. The District's cost of providing charity care was $71,191 and $19,760 for the years ended September 30, 2016 and 2015, respectively.

NOTE 3 – SHORT – TERM INVESTMENTS

The District's investments are reported at fair value, and consist of certificates of deposit, which matures within the next fiscal year. The fair value of the District's short-term investments at September 30, 2016 and 2015 were $2,589,607 and $2,584,797, respectively, all of which are covered by FDIC and also collateralized with securities held by the pledging financial institution in the District's name.

NOTE 3 – SHORT – TERM INVESTMENTS (CONTINUED)

The District's investments are subject to the following risks:

Interest Rate Risk – Interest rate risk is the risk that market value of investments will change based on changes in market interest rates.

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations.

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.

Concentration of Credit Risk – The District places no limit on the amount that may be invested in any one issuer.

Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in value of investments will occur in the near-term and that such change could materially affect the amounts reported in the accompanying statements of net position.

NOTE 4 - DEPOSITS WITH FINANCIAL INSTITUTIONS

At September 30, 2016 and 2015, the carrying amount of the District's deposits with financial institutions was $4,176,048 and $4,267,991, respectively. The bank balance at September 30, 2016 and 2015 was $4,341,461 and $4,474,127, respectively.

	2016	2015
Amount insured by the FDIC - Demand Deposits	$ 485,838	$ 500,000
Amount insured by the FDIC -Time and Savings	500,000	500,000
Amount collateralized with securities held by the pledging financial institution in the Hospital's name	3,355,623	3,474,127
Total bank balance	$ 4,341,461	$ 4,474,127

NOTE 5 - PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable consist of the following at September 30:

	2016	2015
Gross Accounts Receivable	$ 1,546,239	$ 1,564,632
Less: Allowance for Bad Debts	(308,853)	(403,699)
Allowance for Contractuals	(522,483)	(522,483)
Accounts Receivable, Net of Allowance	$ 714,903	$ 638,450

Concentration of Credit Risk - The District grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at September 30 is as follows:

	2016	2015
Medicare	22%	33%
Medicaid	2%	5%
Other Third-Party Payors	39%	30%
Patients	37%	32%
Total	100%	100%

NOTE 6 – TAXES RECEIVABLE

Property taxes are levied on October 1 of each year and become delinquent as of February 1 of the following year. Taxes are reported as revenues in the period for which they are levied. Tax revenue, net of related expenses for the years ended September 30, 2016 and 2015, was $697,957 and $722,640, respectively. As of September 30, 2016 and 2015, the balance of property taxes receivable, and its related allowance for uncollectible taxes are as follows:

	2016	2015
Property Taxes Receivable	$ 46,234	$ 46,788
Less: Allowance for Uncollectible Taxes	(39,058)	(39,278)
Taxes Receivable, Net of Allowance	$ 7,176	$ 7,510

NOTE 7 – PROPERTY TAX ABATEMENT

The District entered into a property tax abatement agreement with a local business under the Texas Property Redevelopment and Tax Abatement Act, Tax Code Chapter 312. Under the Act, the District may grant property tax abatements of a business' property tax bill for the purpose of attracting new industries and to encourage the retention and development of existing businesses that are located within a reinvested zone designed under Chapter 312, Texas Tax Code. The District has entered into tax

NOTE 7 – PROPERTY TAX ABATEMENT (CONTINUED)

abatement agreement with RES Cactus Flats Wind Energy for the development of wind powered electric power generating facilities (wind farms), located in Concho County, Texas. As a result, the District will forego assessment and collection of ad valorem property taxes levied by the District on the improvements and facilities during the abatement period. The abatement period will begin on the earlier of commencement of commercial operations date or the notice of abatement commencement and terminate on the tenth year following the commencement date, unless sooner terminated. In the event of a default, the District is entitled to recapture any and all property taxes which have been abated as a result of the agreement.

NOTE 8 – CAPITAL ASSETS

Capital asset additions, retirements, and balances for the years ended September 30, 2016 and 2015 were as follows:

	Balance 09/30/15	Additions	Reclass/ Retirements	Balance 09/30/16
Land	$ 3,180	$ -	$ -	$ 3,180
Land improvements	13,918	21,464	-	35,382
Building and improvements	5,990,471	280,850	-	6,271,321
Equipment	2,783,923	160,856	-	2,944,779
Totals at Historical Cost	8,791,492	463,170	-	9,254,662
Less Accumulated Depreciation for:				
Building and improvements	(883,692)	(351,526)	-	(1,235,218)
Equipment	(2,032,271)	(215,974)	-	(2,248,245)
Total Accumulated Depreciation	(2,915,963)	(567,500)	-	(3,483,463)
Capital Assets, Net	$ 5,875,529	$ (104,330)	$ -	$ 5,771,199

NOTE 8 – CAPITAL ASSETS-(CONTINUED)

	Balance 09/30/14	Additions	Reclass/ Retirements	Balance 09/30/15
Land	$ 3,180	$ -	$ -	$ 3,180
Land improvements	13,918	-	-	13,918
Building and improvements	3,757,209	683,975	1,549,287	5,990,471
Equipment	2,449,355	334,568	-	2,783,923
Construction in progress	486,314	1,062,973	(1,549,287)	-
Totals at Historical Cost	6,709,976	2,081,516	-	8,791,492
Less Accumulated Depreciation for:				
Building and improvements	(820,868)	(62,824)	-	(883,692)
Equipment	(1,694,920)	(337,351)	-	(2,032,271)
Total Accumulated Depreciation	(2,515,788)	(400,175)	-	(2,915,963)
Capital Assets, Net	$ 4,194,188	$ 1,681,341	$ -	$ 5,875,529

Total depreciation expense for 2016 and 2015, was $564,559 and $400,175, respectively.

NOTE 9 – LONG-TERM DEBT

A schedule of changes in the District's long-term debt consists of the following at September 30:

	Balance 09/30/15	Additions	Reductions	Balance 09/30/16	Due Within One Year
Notes Payable:					
Note #1	$ 43,619	$ -	$ (22,558)	$ 21,061	$ 21,061
Capital Lease:					
Kingsbridge	807,328	-	(157,893)	649,435	162,976
Total Long-Term Debt	$ 850,947	$ -	$ (180,451)	$ 670,496	$ 184,037

NOTE 9 – LONG-TERM DEBT (CONTINUED)

	Balance 09/30/14	Additions	Reductions	Balance 09/30/15	Due Within One Year
Notes Payable:					
Note #1	$ 66,188	$ -	$ (22,569)	$ 43,619	$ 23,358
Capital Lease:					
Kingsbridge	262,608	574,947	(30,227)	807,328	157,893
Total Long-Term Debt	$ 328,796	$ 574,947	$ (52,796)	$ 850,947	$ 181,251

The terms and due dates of the District's long-term debt, including note payable obligations, at September 30, 2016 are as follows:

- Note #1 payable to Government Capital, in yearly installments of $25,020 with an effective interest rate of 3.5%, collateralized by equipment. Final payment due April 2017.

- Kingsbridge: Capital lease obligation with vendor, for patient room renovations, payable in monthly installments of $15,114 with effective interest rate of 3.17%, matures July 2020. Collateralized by real and personal property, with amortized value of $671,081 and $838,851 at September 30, 2016 and 2015, respectively.

The District follows the policy of capitalizing interest as a component of the cost of capital assets constructed for its own use. In 2016 and 2015, total interest incurred was $25,133 and $143,596, respectively, of which $25,133 and $2,450 was charged to interest expense, respectively.

Future maturities of long-term debt principal and interest are as follows:

	Long-Term Debt			Capital Lease Obligations	
For the Year Ending	Principal	Interest	Total	Principal	Interest
September 30,					
2017	$ 21,061	$ 845	$ 21,906	$ 162,976	$ 18,388
2018	-	-	-	168,223	13,141
2019	-	-	-	173,639	7,725
2020	-	-	-	144,597	2,175
Total	$ 21,061	$ 845	$ 21,906	$ 649,435	$ 41,429

NOTE 10 – SECTION 1115 DEMONSTRATION WAIVER PROGRAM

Uncompensated Care - The District participated in the Section 1115 Demonstration Waiver Program, a program designed to benefit rural community hospitals. This program is facilitated through the District providing an intergovernmental transfer whereby federal matching funds are provided to supplement the District for the shortfall in Medicaid funding. In connection with this program, the District provided intergovernmental transfers of $226,361 and $74,149, and received $532,216 and $174,654 for the years ended September 30, 2016 and 2015, respectively. The District recognized net revenue of $192,856 and $86,050 for the years ended September 30, 2016 and 2015, respectively. The respective revenue is included within net patient service revenue in the statements of revenues, expenses, and changes in net position. Additionally, the District has recorded a net receivable in the amount of $-0- and $113,546 for the years ended September 30, 2016 and 2015, respectively, which are included in other receivables on the statements of net position.

Delivery System Reform Incentive Program - As part of the Section 1115 Demonstration Waiver Program, the District is eligible to receive incentive payments through the Delivery System Reform Incentive Payment Program (DSRIP). This incentive program is designed to improve the experience of care, improve the health of populations, and containing costs. By participating in the DSRIP program, the District provides an intergovernmental transfer to finance the non-federal share of the incentive payments. In connection with this program, the District provided intergovernmental transfers of $112,454 and $102,435, and received $262,581 and $244,184 for the years ended September 30, 2016 and 2015, respectively. Additionally, the District recorded a net receivable of approximately $159,515 and $149,235 at September 30, 2016 and 2015, respectively. The District recognized net revenue of $160,407 and $290,984 for the years ended September 30, 2016 and 2015, respectively, which is included within other revenue in the statements of revenues, expenses, and changes in net position.

Indigent Care Affiliation - Under the demonstration wavier, the District is part of two indigent care affiliation agreements with the Service Organization of Concho Valley and the Service Organization of Big Country, both non-profit corporations, and affiliated hospitals. This agreement is intended to increase funding for the Medicaid population and to access federal funding for the indigent population. Under this program, the District contributes certain governmental funds to the State of Texas. The Service Organization of Concho Valley then provides care to the Medicaid and non-Medicaid indigent in the region and surrounding communities. These services were valued at $657,845 and $941,232 for the years ended September 30, 2016 and 2015, respectively. As part of the affiliation agreement, the District provided $1,005,000 and $772,361 in funding to the program for the years ended September 30, 2016 and 2015, respectively. Additionally, the District has funded $667,489 and $113,499 which has been recorded as prepaid services in the accompanying statement of net position at September 30, 2016 and 2015, respectively.

NOTE 11 – MEDICAID DISPROPORTIONATE SHARE FUNDS

The Indigent Health Care and Treatment Act, passed by the 69th Texas Legislature in 1985, first apportioned funds to the Texas Department of Human Services (DHS) to provide assistance to hospitals providing a disproportionate share of inpatient indigent health care. The State of Texas created a mechanism whereby intergovernmental transfers were made between selected district and county hospitals to generate additional federal matching funds.

NOTE 11 – MEDICAID DISPROPORTIONATE SHARE FUNDS (CONTINUED)

Hospitals participating in the Medicaid program that meet the conditions of participation and that serve a disproportionate share of low-income patients as defined by state law are eligible for additional reimbursement from the disproportionate share hospital fund. There are direct and indirect implied expectations regarding purposes of this funding. The focus of the funds is to benefit the health care needs of the medically indigent, including recipients of Medicaid benefits, those eligible for Medicaid benefits, the uninsured, and others for whom the cost of medical and hospital care has exceeded their ability to pay. However, state and federal law offer considerable flexibility to recipient hospitals regarding specific use of funds. In connection with this program, the District provided intergovernmental transfers of $57,792 and $63,017 and received $159,913 and $224,669 at September 30, 2016 and 2015, respectively. Additionally, the District recorded a net receivable in the amount of $-0- and $28,765 at September 30, 2016 and 2015, respectively. The District recognized net revenue of $64,004 and $153,417 for the years ended September 30, 2016 and 2015, respectively, which is included within net patient service revenue in the accompanying statements of revenues, expenses, and changes in net position.

NOTE 12 – COMMITMENTS AND CONTINGENCIES

Litigation – The District is a unit of government covered by the Texas Tort Claims Act, which by statute, limits its liability to $100,000 per person/$300,000 per occurrence. These limits coincide with the malpractice insurance coverage maintained by the District. The District, from time-to-time, may be subject to claims and suits for damages as well. In the opinion of management, the ultimate resolution of pending legal proceedings will not have a material effect on the District's financial position or results of operations.

Leases – The District leases various equipment and facilities under operating leases expiring at various dates. Total rental expense, including operating leases, in September 30, 2016 and 2015 was $44,539 and $27,079, respectively.

NOTE 13 – EMPLOYEE BENEFITS

Plan Description

The District participates in the Texas County & District Retirement System (TCDRS), an agent multiple-employer defined benefit pension plan covering all full-time and part-time non temporary employees, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership. The Plan is administered by a board of trustees appointed by TCDRS. Benefit provisions are contained in the plan document and were established and can be amended by action of the District's governing body within the options available in the state statutes governing TCDRS. The plan does not issue a separate report that includes financial statements and required supplementary information for the plan. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The most recent CAFR for TCDRS can be found at the following link, www.tcdrs.org.

NOTE 13 – EMPLOYEE BENEFITS (CONTINUED)

Benefits Provided

The Plan provides retirement, disability and survivor benefits to plan members and their beneficiaries. Benefit amounts are determined by the sum of the employee's contributions to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the District within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the commitment of the District to contribute to the plan. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by TCDRS.

Members can retire at ages 60 and above with 10 or more years, with 30 years regardless of age, when the sum of their age and years of service equals 80 or more. A member is vested after 10 years but must leave their accumulated contributions in the plan to receive any employer-financed benefit. If a member withdraws their personal contributions in a lump sum, they are not entitled to any amounts contributed by the employer.

At September 30, 2016, the following employees were covered by the benefit terms:

	2015	2014
Inactive Employees or Beneficiaries Currently Receiving Benefits	15	15
Inactive Employees Entitled to but not Yet Receiving Benefits	17	15
Active Employees	44	41
Total	76	71

Contributions

The District's governing board has the authority to establish and amend the contribution requirements of the District and active employees.

The District establishes rates based on the annually determined rate plan provisions of the TCDRS Act. The plan funded by monthly contributions from both the employee members and the employer based on the covered payroll of employee members. Plan members are required to contribute 5% of their annually covered salary. Under the TCDRS Act, rates are based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

NOTE 13 – EMPLOYEE BENEFITS (CONTINUED)

Contributions (Continued)

The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the plan year ended December 31, 2015, employees contributed approximately $128,216, or 5.0% of covered payroll, and the District contributed approximately $114,882, or 4.5% of covered payroll, to the Plan. For the year ended December 31, 2014, employees contributed approximately $112,367, or 5.0% of covered payroll, and the District contributed approximately $114,839, or 5.1% of covered payroll, to the Plan.

Net Pension Liability

At September 30, 2016 and 2015, the District's net pension liability was measured as of December 31, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was respectively determined by an actuarial valuation as of that date.

Actuarial Assumptions – The total pension liability in the December 31, 2015 and 2014 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Acutarial Cost Method	Entry Age Normal
Amortization Method	Straight-Line amortization over Expected Working Life
Inflation	3.0%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.10%

Mortality rates were based as follows:

Depositing Members	The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both with the projection scale AA and then projected with 110% of the MP-2014 Ultimate scale after that.
Service Retirees, Beneficiaries and Non-depositing Members	The RP-2000 Combined Mortality Table projected to 2014with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with a one-year set-forward for males and no age adjustment for females.
Disabled Retirees	RP-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with no age adjustment for males and a two-year set-forward for females.

NOTE 13 – EMPLOYEE BENEFITS (CONTINUED)

The actuarial assumptions used in the December 31, 2015 and 2014 valuations were based on the results of an actuarial experience study for the period January 1, 2009 – December 31, 2012, except where required to be different by GASB 68.

Net Pension Liability (Continued)

The long-term expected rate of return on pension investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net or pension plan investment expense and inflation) 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 and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected minus Inflation)
U.S Equities	14.50%	5.45%
Private Equity	14.00%	8.45%
Global Equities	1.50%	5.75%
International Equities-Developed	10.00%	5.45%
International Equities-Emerging	8.00%	6.45%
Investment-Grade Bonds	3.00%	1.00%
High-Yield Bonds	3.00%	5.10%
Opportunistic Credit	2.00%	5.09%
Direct Lending	5.00%	6.40%
Distressed Debt	3.00%	8.10%
REIT Equities	3.00%	4.00%
Master Limited Partnerships (MLP's)	3.00%	6.80%
Private Real Estate Partnerships	5.00%	6.90%
Hedge Funds	25.00%	5.25%
	100%	

Discount Rate

The discount rate used to measure the total pension liability was 8.10% at December 31, 2015 and 2014. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that District contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 13 – EMPLOYEE BENEFITS (CONTINUED)

Discount Rate (Continued)

The following table summarizes the changes in the net pension liability as of December 31, 2015, the valuation date:

	Increase (Decrease)		
Changes in Net Pension Liability / (Asset)	Total Pension Liability	Fiduciary Net Position	Net Pension Liability / (Asset)
Balances as of December 31, 2014	$ 2,486,531	$ 2,468,188	$ 18,343
Changes for the Year:			
Service Cost	187,401	-	187,401
Interest on Total Pension Liability	205,490	-	205,490
Effect of Plan Changes	(32,147)	-	(32,147)
Effect of Economic/Demographic Gains or Losses	(17,194)	-	(17,194)
Effect of Assumptions Changes or Inputs	38,730	-	38,730
Refund of Contributions	(14,414)	(14,414)	-
Benefit Payments	(76,810)	(76,810)	-
Administrative Expenses	-	(1,836)	1,836
Member Contributions	-	128,216	(128,216)
Net Investment Income	-	(8,041)	8,041
Employer Contributions	-	114,882	(114,882)
Other	-	(1,627)	1,627
Balances as of December 31, 2015	$ 2,777,587	$ 2,608,558	$ 169,029

NOTE 13 – EMPLOYEE BENEFITS (CONTINUED)

Discount Rate (Continued)

The following table summarizes the changes in the net pension liability as of December 31, 2014, the valuation date:

	Increase (Decrease)		
Changes in Net Pension Liability / (Asset)	Total Pension Liability	Fiduciary Net Position	Net Pension Liability / (Asset)
Balances as of December 31, 2013	$ 2,222,315	$ 2,183,687	$ 38,628
Changes for the Year:			
Service Cost	148,554	-	148,554
Interest on Total Pension Liability	183,274	-	183,274
Effect of Economic/Demographic Gains or Losses	(1,302)	-	(1,302)
Refund of Contributions	-	-	-
Benefit Payments	(66,310)	(66,310)	-
Administrative Expenses	-	(1,798)	1,798
Member Contributions	-	112,367	(112,367)
Net Investment Income	-	150,962	(150,962)
Employer Contributions	-	114,839	(114,839)
Other	-	(25,559)	25,559
Balances as of December 31, 2014	$ 2,486,531	$ 2,468,188	$ 18,343

NOTE 13 – EMPLOYEE BENEFITS (CONTINUED)

Discount Rate (Continued)

Sensitivity to the Net Pension Liability (Asset) to Changes in the Discount Rate – The following presents the net pension liability of the District, calculated using the discount rate of 8.10%, as well as what the District's net pension liability (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (7.10%) or 1-percentage-point higher (9.10%) than the current rate:

	2015		
	1% Decrease 7.10%	Current Discount Rate 8.10%	1% Increase 9.10%
Total Pension Liability	$ 3,157,232	$ 2,777,586	$ 2,462,218
Fiduciary Net Position	2,608,557	2,608,557	2,608,557
Net Pension (Asset)/Liability	$ 548,675	$ 169,029	$ (146,339)

	2014		
	1% Decrease 7.10%	Current Discount Rate 8.10%	1% Increase 9.10%
Total Pension Liability	$ 2,810,307	$ 2,486,531	$ 2,219,043
Fiduciary Net Position	2,468,188	2,468,188	2,468,188
Net Pension (Asset)/Liability	$ 342,119	$ 18,343	$ (249,145)

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's fiduciary net position is available in the separately issued TCDRS financial report.

NOTE 13 – EMPLOYEE BENEFITS (CONTINUED)

Pension (Income)/Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the years ended September 30, 2016 and 2015, the District recognized pension expense of $76,369 and $94,054, respectively. At September 30, 2016 and 2015, the District reported deferred outflows of resources and deferred inflows of resources related to the TCDRS defined benefit pension plan from the following sources:

	2016	
	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	$ 15,196	$ -
Change of Assumptions	-	32,275
Net Difference Between Projected and Actual Earnings	-	$ 192,368
Contributions Made Subsequent to Measurement Date	-	$ 93,260

	2015	
	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	$ 1,805	$ -
Change of Assumptions	-	-
Net Difference Between Projected and Actual Earnings	-	$ 26,417
Contributions Made Subsequent to Measurement Date	N/A	$ 82,305

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related pensions, excluding contributions made subsequent to the measurement date, will be recognized in pension expense as follows:

Year Ended December 31:	
2016	$ 53,115
2017	53,115
2018	53,115
2019	46,511
2020	3,589
Thereafter	-

NOTE 14 – SLEEP STUDIES PROGRAM

The District operates sleep study centers at different locations in the state of Texas. At September 30, 2016 and 2015, the District operated sleep clinics in Austin, Dallas, El Paso, Houston, Lawton, San Antonio, San Angelo, and Wichita Falls. Contracts for Austin, Houston and San Antonio began in fiscal year 2015. Contracts renew annually unless either party exercises the option to terminate. In 2015, the contracts with the Dallas, El Paso, Lawton, and Wichita Falls, Texas sleep study centers were not renewed. Net patient service revenue for all locations in 2016 and 2015 was $1,741,085 and $1,158,525 respectively. For the years ended September 30, 2016 and 2015, the related expenses were $917,850 and $598,940 , respectively.

	2016						
	Austin	Dallas	El Paso	Houston	Lawton	San Antonio	Wichita Falls
Gross Patient Revenue	$ 733,787	$ -	$ -	$ 1,239,847	$ -	$ 556,666	$ -
Contractual Adjustments	(216,153)	-	-	(365,224)	-	(163,978)	-
Provision for Bad Debt	(12,719)	-	-	(21,492)	-	(9,649)	-
Net Patient Service Revenue	504,915	-	-	853,131	-	383,039	-
Total Expenses	(294,600)	-	-	(386,250)	-	(237,000)	-
Income (Loss) from Operations	$ 210,315	$ -	$ -	$ 466,881	$ -	$ 146,039	$ -

	2015						
	Austin	Dallas	El Paso	Houston	Lawton	San Antonio	Wichita Falls
Gross Patient Revenue	$ 438,000	$ 6,000	$ 12,000	$ 618,600	$ 8,000	$ 475,200	$ 28,000
Contractual Adjustments	(104,835)	(900)	(2,340)	(158,323)	(1,540)	(121,137)	(4,200)
Provision for Bad Debt	(9,180)	(170)	(340)	(13,260)	(170)	(10,200)	(680)
Net Patient Service Revenue	323,985	4,930	9,320	447,017	6,290	343,863	23,120
Total Expenses	(175,400)	(9,850)	(340)	(189,250)	(4,500)	(201,600)	(18,000)
Income (Loss) from Operations	$ 148,585	$ (4,920)	$ 8,980	$ 257,767	$ 1,790	$ 142,263	$ 5,120

Subsequent to year-end, management terminated the contract with sleep study centers located in Austin, Houston, and San Antonio, Texas.

NOTE 15 – CHANGE IN ACCOUNTING PRINCIPLE

During 2015, the District implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, and amendment of GASB Statement No. 68.* The Statements improve accounting for defined benefit pension plans and contributions made subsequent to the actuarial valuation measurement date. In addition to making changes to how annual pension expense is to be calculated for defined benefit pension plans, the standard also requires that governmental entities record an asset or liability in their financial statements that is equal to the net pension asset or liability. Historically, governmental entities have only been required to record a liability, if any, for the difference between annual pension cost (APC) and the amount of APC contributed to the plan. Restatement of the 2014 financial statements is not practical because prior year information calculated under the provision of GASB 68 is not available; accordingly,

NOTE 15 – CHANGE IN ACCOUNTING PRINCIPLE (CONTINUED)

the District has reported the cumulative effect of applying GASB 68 as a restatement of net position as of January 1, 2015. This restatement increased previously reported net position by $73,899.

NOTE 16 – SUBSEQUENT EVENTS

The date to which events occurring after September 30, 2016, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosure is May 26, 2017, which is the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

Schedules of Changes in the District's Net Pension Asset and Related Ratios

	Year Ended December 31, 2015	2014
Total Pension Liability		
Service Cost	$ 187,401	148,554
Interest on Total Pension Liability	205,490	183,274
Effect of Plan Changes	(32,147)	-
Effect of Assumption Changes or Inputs	38,730	-
Effect of Economic/Demographic (Gains) or Losses	(17,194)	(1,302)
Benefit Payments/Refunds of Contributions	(91,224)	(66,310)
Net Change in Total Pension Liability	291,056	264,216
Total Pension Liability, Beginning	2,486,531	2,222,315
Total Pension Liability, Ending	$ 2,777,587	2,486,531
Fiduciary Net Position		
Employer Contributions	$ 114,882	114,839
Member Contributions	128,216	112,367
Investment Income Net of Investment Expenses	(8,041)	150,962
Benefit Payments/Refunds of Contributions	(91,224)	(66,310)
Administrative Expenses	(1,836)	(1,798)
Other	(1,628)	(25,560)
Net Changes in Fiduciary Net Position	140,369	284,500
Fiduciary Net Position, Beginning	2,468,189	2,183,687
Fiduciary Net Position, Ending	$ 2,608,558	2,468,187
Net Pension Liability/(Asset), Ending	$ 169,029	18,343
Fiduciary Net Position as a % of Total Pension Liability	93.91%	99.26%
Pensionable Covered Payroll	$ 2,564,329	2,247,336
Net Pension Liability as a % of Covered Payroll	6.59%	0.82%

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 is required to present information for those years for which information is available.

See Independent Auditor's Report on required supplemental information.

CONCHO COUNTY HOSPITAL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)
SEPTEMBER 30, 2016 AND 2015

Schedule of District Contributions

Year Ending December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll	Actual Contribution as a % of Covered Payroll
2006	$ 44,612	$ 44,612	$ -	$ 833,861	5.4%
2007	50,533	50,533	-	1,033,391	4.9%
2008	46,428	46,428	-	944,185	4.7%
2009	36,775	36,775	-	947,803	3.9%
2010	52,480	52,480	-	1,116,592	4.7%
2011	57,341	57,341	-	1,204,644	4.8%
2012	70,803	70,803	-	1,430,360	5.0%
2013	87,305	87,305	-	1,760,182	5.0%
2014	114,839	114,839	-	2,247,336	5.1%
2015	114,882	114,882	-	2,564,329	4.5%

Notes to Schedule:

(1) *Payroll is calculated based on contributions as reported by TCDRS*

Valuation Date:

Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which the contributions are reported.

See Independent Auditor's Report on required supplemental information.

Schedule of District Contributions (Continued)

Methods and assumptions used to determine contributions rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	14.0 year (based on contribution rate calculated in 12/31/2015 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	3.0%
Salary Increases	Varies by age and service. 4.9% avaerage over career including inflation.
Investment rate of Return	8.00%, net of investment expenses, including inflation
Retirement Age	Members who are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.
Changes in Plan Provisions Reflected in the Sechedule	No changes in plan provisions are reflected in the Schedule of Employer Contributions.

DURBIN & COMPANY, L. L. P.

Certified Public Accountants

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Lubbock, Texas 79413
(806) 791 - 1591
Fax (806) 791-3974

INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION

Management and the Board of Directors
Concho County Hospital District
Eden, Texas

We have audited the financial statements of Concho County Hospital District as of and for the years ended September 30, 2016 and 2015, and have issued our report thereon dated May 26, 2017, which contained an unmodified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The other financial information, on pages 30-34, is prepared for the purposes of additional analysis and is not a required part of the 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 financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Durbin & Company, L.L.P.

Durbin & Company, L. L. P.
Lubbock, TX
May 26, 2017

CONCHO COUNTY HOSPITAL DISTRICT
NET PATIENT SERVICE REVENUE AND
OTHER OPERATING REVENUE
FOR THE YEARS ENDED 2016

	2016	2015
Routine Services		
Routine services	$ 271,522	$ 248,526
Ancillary and Other Services		
Inpatient:		
Radiology and nuclear medicine	44,798	48,224
Laboratory	45,635	61,300
Respiratory therapy	46,680	50,167
Physical therapy	45,003	15,435
Electrocardiology	1,398	3,309
Central supply	44,367	59,452
Pharmacy	230,156	164,317
Emergency	24,734	35,374
Observation	21,591	39,837
Total Inpatient Ancillary Services	504,362	477,415
Outpatient:		
Radiology and nuclear medicine	765,532	675,807
Laboratory	883,529	852,536
Respiratory therapy	5,865	10,515
Physical therapy	2,603,809	1,585,800
Electrocardiology	56,814	47,564
Central supply	15,475	10,139
Pharmacy	80,582	69,223
Emergency room	1,529,622	1,457,819
Observation	384,675	591,013
Retail Pharmacy	1,856,547	1,789,073
Health and Wellness	23,653	4,038
Total Outpatient Ancillary Services	8,206,103	7,093,527
Gross Patient Revenue	$ 8,981,987	$ 7,819,468

See Independent Accountant's Report on Other Financial Information.

CONCHO COUNTY HOSPITAL DISTRICT
NET PATIENT SERVICE REVENUE AND
OTHER OPERATING REVENUE (CONTINUED)
FOR THE YEARS ENDED 2016

	2016	2015
Gross Patient Revenue	$ 8,981,987	$ 7,819,468
Deductions from Revenue:		
Charity	(54,776)	(17,991)
Third-Party Contractual Adjustments	(943,429)	(506,520)
Provision for Bad Debts	(603,886)	(899,422)
Medicaid Supplemental Payments & Other Credits	256,860	239,467
Total Deductions from Revenue	(1,345,231)	(1,184,466)
Net Patient Service Revenue	$ 7,636,756	$ 6,635,002
Operating Revenue		
Office Rents	$ 43,584	$ 22,792
DSRIP Revenue	160,407	290,984
Miscellaneous	35,641	83,132
Total Operating Revenue	$ 239,632	$ 396,908

See Independent Accountant's Report on Other Financial Information.

CONCHO COUNTY HOSPITAL DISTRICT
OPERATING EXPENSES
FOR THE YEARS ENDED 2016

	2016	2015
Routine Services	$ 1,221,069	$ 1,471,319
Ancillary Services		
Radiology and nuclear medicine	295,522	280,600
Laboratory	362,648	415,362
Respiratory therapy	1,880	1,857
Physical therapy	1,035,698	600,984
Electrocardiology	4,580	4,470
Central supply	34,674	49,910
Pharmacy	94,328	92,764
Emergency	970,169	687,955
Ambulance	66,620	76,440
Retail Pharmacy	1,439,089	1,309,613
Health and Wellness	147,260	54,474
Total Ancillary Services	4,452,468	3,574,429

See Independent Accountant's Report on Other Financial Information.

CONCHO COUNTY HOSPITAL DISTRICT
OPERATING EXPENSES (CONTINUED)
FOR THE YEARS ENDED 2016

	2016	2015
General Services		
Operation and Plant	215,906	207,377
Laundry and Linen	33,525	9,443
Housekeeping	32,934	29,645
Dietary	64,644	62,502
Total General Services	347,009	308,967
Administrative Services		
Salaries	548,594	417,325
Other operating	345,006	136,099
Employee Benefits	531,414	521,831
Medical Records	21,283	27,122
Rental expense	20,711	20,579
Travel and Seminars	8,534	2,518
Insurance	28,952	33,473
Legal and Accounting Fees	65,892	57,345
Marketing	673	1,189
General Supplies	57,239	29,674
Computer Maintenance	110,645	92,346
Total Administrative Services	1,738,943	1,339,501
Depreciation	564,559	400,175
Total Operating Expenses	$ 8,324,048	$ 7,094,391

See Independent Accountant's Report on Other Financial Information.