

**CONCHO COUNTY HOSPITAL DISTRICT
EDEN, TEXAS**

**AS OF AND FOR THE YEARS ENDED
SEPTEMBER 30, 2017 AND 2016**



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, 2017 and 2016, 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, 2017 and 2016, 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 26 through 27, 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
April 26, 2018

**CONCHO COUNTY HOSPITAL DISTRICT
EDEN, TEXAS**

MANAGEMENT'S DISCUSSION AND ANALYSIS

**AS OF AND FOR THE YEARS ENDED
SEPTEMBER 30, 2017 AND 2016**

**CONCHO COUNTY HOSPITAL DISTRICT
UNAUDITED MANAGEMENT DISCUSSION AND ANALYSIS
AND FINANCIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND SEPTEMBER 30, 2016**

Our discussion and analysis of Concho County Hospital District's (the "District") financial performance provides an overview of the District's financial activities as of and for the fiscal years ended September 30, 2017 and 2016. Please read it in conjunction with the District's financial statements, which begin on page 1.

FINANCIAL HIGHLIGHTS

- The District's net position reflects a (\$511,624) or (4.56%) decrease in 2017 and a \$438,878 or 4.07% increase in 2016.
- The District reported operating losses in 2017 and 2016 of (\$1,424,717) and (\$447,660), respectively. The operating loss in 2017 had an unfavorable increase of (\$977,057) over losses reported in 2016.
- Nonoperating revenues (expenses) increased \$26,555 or 3.00%, in 2017, compared to 2016. In 2016, nonoperating revenues (expenses) decreased (\$135,426) or (13.25%) as compared to 2015.

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 assess the overall health of the District.

CONCHO COUNTY HOSPITAL DISTRICT
UNAUDITED MANAGEMENT DISCUSSION AND ANALYSIS
AND FINACIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND SEPTEMBER 30, 2016

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 decreased by \$(511,624) or (4.56%) in 2017 and increased by \$438,878 or 4.07% in 2016, as you can see from **Table 1**.

Table 1: Assets, Liabilities, and Net Position

	2017	2016	2015
Assets:			
Current Assets	\$ 5,933,873	\$ 6,558,860	\$ 6,064,770
Capital Assets (net)	5,871,393	5,771,199	5,875,529
Deferred Outflows of Resources	273,890	317,903	108,722
Total Assets and Deferred			
Outflows of Resources	<u>\$ 12,079,156</u>	<u>\$ 12,647,962</u>	<u>\$ 12,049,021</u>
Liabilities:			
Long-Term Debt Outstanding	\$ 963,074	\$ 839,525	\$ 850,947
Other Current and Non-Current	348,567	576,305	420,016
Deferred Inflows of Resources	62,203	15,196	-
Total Liabilities and Deferred			
Inflows of Resources	<u>1,373,844</u>	<u>1,431,026</u>	<u>1,270,963</u>
Total Net Position	<u>10,705,312</u>	<u>11,216,936</u>	<u>10,778,058</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 12,079,156</u>	<u>\$ 12,647,962</u>	<u>\$ 12,049,021</u>

Total assets and deferred outflows of resources decreased by (\$568,806) or (4.50%) in 2017, mainly due to a decrease in third-party payor settmenets. Total liabilities and deferred inflows of resources decreased (\$57,182) or (4.00%) in 2017.

CONCHO COUNTY HOSPITAL DISTRICT
UNAUDITED MANAGEMENT DISCUSSION AND ANALYSIS
AND FINACIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND SEPTEMBER 30, 2016

OPERATING RESULTS AND CHANGES IN THE DISTRICT'S NET POSITION

The District's net position decreased by (\$511,624) and increased by \$438,878 in 2017 and 2016, 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

	2017	2016	2015
Operating Revenues:			
Net Patient Service Revenue	\$ 6,818,153	\$ 7,636,756	\$ 6,635,002
Delivery System Reform Incentive Program	161,502	160,407	290,984
Other Operating Revenue	57,142	79,225	105,924
Total Operating Revenue	7,036,797	7,876,388	7,031,910
Operating Expenses:			
Salaries, Benefits and Payroll Taxes	3,830,729	3,716,940	3,207,137
Other Operating Expenses	4,023,873	4,042,549	3,487,079
Depreciation / Amortization	606,912	564,559	400,175
Total Operating Expenses	8,461,514	8,324,048	7,094,391
Operating Income (Loss)	(1,424,717)	(447,660)	(62,481)
Nonoperating Revenues and Expenses:			
Property Tax Revenue	727,477	697,957	722,640
Community Benefit Support	625,535	657,845	941,232
Intergovernmental Transfer	(444,130)	(466,230)	(667,262)
Investment Income	11,179	11,299	12,380
Interest Expense	(22,347)	(25,133)	(2,450)
Other	15,379	10,800	15,424
Total Nonoperating Revenues (Expenses)	913,093	886,538	1,021,964
Increase (Decrease) in Net Position	(511,624)	438,878	959,483
Net Position, Beginning of Year, as Originally Reported	11,216,936	10,778,058	9,744,676
Adjustment for Change in Accounting Principle	-	-	73,899
Net Position, Beginning of Year, as Restated	11,216,936	10,778,058	9,818,575
Net Position, End of Year	\$ 10,705,312	\$ 11,216,936	\$ 10,778,058

**CONCHO COUNTY HOSPITAL DISTRICT
UNAUDITED MANAGEMENT DISCUSSION AND ANALYSIS
AND FINACIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND SEPTEMBER 30, 2016**

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 2017 and 2016 of \$(1,424,717) and \$(447,660), respectively.

The primary components of the increased operating loss in 2017 are:

- Decrease in net patient service revenue of (\$818,603) or (10.72%).
- Increase in salaries, benefits, and payroll taxes of \$113,789 or 3.06%.

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

- Increase in net patient service revenue of \$1,001,754 or 15.10%.
- Increase in salaries and benefits of \$509,803 or 15.90%.
- Increase in other operating expenses of \$555,470 or 15.93%.
- Increase in Depreciation expense of \$164,384 or 41.1%.
- Decrease in delivery systems reform incentive program revenue of (\$130,577) or (44.9%).

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, 2017 and 2016, the District had \$5,871,393 and \$5,771,199, 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 \$707,106 and \$463,170 in 2017 and 2016, respectively. Depreciation expense totaled \$606,912 and \$564,559 in 2017 and 2016, respectively.

Debt

At September 30, 2017 the District had long-term debt outstanding of \$845,360 and \$670,496, respectively, as detailed in Note 9 of the financial statements. During fiscal year 2017 and 2016, the District made payments of \$184,037 and \$180,451, respectively, on outstanding debt.

**CONCHO COUNTY HOSPITAL DISTRICT
UNAUDITED MANAGEMENT DISCUSSION AND ANALYSIS
AND FINACIAL STATEMENTS (CONTINUED)
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND SEPTEMBER 30, 2016**

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

**AS OF AND FOR THE YEARS ENDED
SEPTEMBER 30, 2017 AND 2016**

CONCHO COUNTY HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

SEPTEMBER 30, 2017 AND 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:	2017	2016
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 1,902,679	\$ 1,586,441
Short-Term Investments	2,326,129	2,589,607
Patient Accounts Receivable, Net of Allowance	639,868	714,903
Estimated Third-Party Payor Settlements	268,258	618,972
Other Receivables	250,706	209,185
Inventory of Supplies	187,951	135,951
Prepaid and Other Current Assets	348,932	696,625
Property Taxes Receivable	9,350	7,176
Total Current Assets	5,933,873	6,558,860
NONCURRENT ASSETS		
Land	105,513	3,180
Depreciable Capital Assets, Net	5,765,880	5,768,019
Total Noncurrent Assets	5,871,393	5,771,199
Total Assets	11,805,266	12,330,059
DEFERRED OUTFLOWS OF RESOURCES		
Difference Between Projected and Actual Earnings	162,476	192,368
Contributions Made Subsequent to Measurement Date	85,594	93,260
Changes In Assumption	25,820	32,275
Total Deferred Outflows of Resources	273,890	317,903
Total Assets and Deferred Outflows of Resources	\$ 12,079,156	\$ 12,647,962

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

CONCHO COUNTY HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

SEPTEMBER 30, 2017 AND 2016

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION:

	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	\$ 300,614	\$ 184,037
Accounts Payable	95,089	347,045
Accrued Payroll, Benefits, and Related Liabilities	211,531	197,955
Other Accrued Liabilities	<u>41,947</u>	<u>31,305</u>
Total Current Liabilities	649,181	760,342
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Portion	544,746	486,459
Net Pension Liability	<u>117,714</u>	<u>169,029</u>
Total Noncurrent Liabilities	<u>662,460</u>	<u>655,488</u>
Total Liabilities	1,311,641	1,415,830
DEFERRED INFLOWS OF RESOURCES		
Differences Between Expected and Actual Experience	<u>62,203</u>	<u>15,196</u>
Total Liabilities and Deferred Inflows of Resources	1,373,844	1,431,026
NET POSITION		
Net Investment in Capital Assets	5,026,033	5,100,703
Unrestricted	<u>5,679,279</u>	<u>6,116,233</u>
Total Net Position	<u>10,705,312</u>	<u>11,216,936</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 12,079,156</u>	<u>\$ 12,647,962</u>

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

CONCHO COUNTY HOSPITAL DISTRICT

STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN NET POSITION

AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	2017	2016
OPERATING REVENUES:		
Net Patient Service Revenue	\$ 6,818,153	\$ 7,636,756
Delivery System Reform Incentive Program	161,502	160,407
Other Revenue	57,142	79,225
Total Operating Revenues	7,036,797	7,876,388
OPERATING EXPENSES:		
Salaries	3,162,401	3,150,286
Employee Benefits and Payroll Taxes	668,328	566,654
Professional Fees and Purchased Services	1,394,707	957,799
Supplies	1,968,247	2,564,997
Other Operating	660,919	519,753
Depreciation and Amortization	606,912	564,559
Total Operating Expenses	8,461,514	8,324,048
Operating Income (Loss)	(1,424,717)	(447,660)
NONOPERATING REVENUES (EXPENSES):		
Property Tax Revenue	727,477	697,957
Community Benefit Support	625,535	657,845
Intergovernmental Transfer	(444,130)	(466,230)
Investment Income	11,179	11,299
Interest Expense	(22,347)	(25,133)
Other Non Operating Revenue	15,379	10,800
Total Nonoperating Revenues (Expenses)	913,093	886,538
Increase (Decrease) in Net Position	(511,624)	438,878
Net Position, Beginning of Year	11,216,936	10,778,058
Net Position, End of Year	\$ 10,705,312	\$ 11,216,936

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

CONCHO COUNTY HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS

AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from and on Behalf of Patients	\$ 7,243,902	\$ 7,408,571
Other Receipts and Payments, net	187,765	376,645
Payments to Suppliers and Contractors	(3,693,256)	(2,924,038)
Payments to Employees	<u>(3,773,140)</u>	<u>(3,987,478)</u>
Net cash provided by (used by) operating activities	(34,729)	873,700
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Earnings	11,179	11,299
Purchase of Investments	(4,856)	(4,810)
Proceeds From Sale of Investments	<u>268,334</u>	<u>-</u>
Net Cash Provided by (Used by) Investing Activities	274,657	6,489
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt and Notes Payable	(183,637)	(180,451)
Interest Payments on Long-Term Debt and Notes Payable	(22,347)	(25,133)
Purchase of Capital Assets	<u>(348,605)</u>	<u>(460,229)</u>
Net Cash Used by Capital and Related Financing Activities	(554,589)	(665,813)
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES		
Property Taxes	725,303	698,291
Payments for Intergovernmental Transfers	(109,783)	(1,020,220)
Other	<u>15,379</u>	<u>10,800</u>
Net Cash Provided by (Used in) Noncapital Financing Activities	<u>630,899</u>	<u>(311,129)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	316,238	(96,753)
Cash and Cash Equivalents, Beginning of Year	<u>1,586,441</u>	<u>1,683,194</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,902,679</u>	<u>\$ 1,586,441</u>

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

CONCHO COUNTY HOSPITAL DISTRICT

STATEMENTS OF CASH FLOWS (CONTINUED)

AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
RECONCILIATION OF CASH AND EQUIVALENTS TO STATEMENTS OF NET POSITION:		
Cash and equivalents presented under the following titles:		
Cash and Cash Equivalents	<u>\$ 1,902,679</u>	<u>\$ 1,586,441</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income (Loss)	\$ (1,424,717)	\$ (447,660)
Adjustments to Reconcile Operating Income (Loss) to Net		
Cash Flows Provided by Operating Activities:		
Provision for Bad Debt	1,630,138	603,886
Depreciation and Amortization	606,912	564,559
Community Benefit Support	625,535	657,845
(Increase) Decrease in:		
Accounts Receivable	(1,555,103)	(680,339)
Prepaid Expenses and Other Current Assets	(80,175)	193,506
Estimated Third-Party Payor Settlements	350,714	(151,732)
Deferred Outflows of Resources	44,013	(209,181)
Increase (Decrease) in:		
Accounts Payable	(251,956)	220,860
Accrued Salaries and Benefits Payable	13,576	(61,357)
Other Accrued Liabilities	10,642	18,516
Net Pension Liability	(51,315)	150,686
Deferred Inflows of Resources	<u>47,007</u>	<u>14,111</u>
Net Cash Provided By (Used in) Operating Activities	<u>\$ (34,729)</u>	<u>\$ 873,700</u>
Supplemental disclosure of noncash investing and financing activities		
New obligations under capital leases	<u>\$ 358,901</u>	<u>\$ -</u>

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

**CONCHO COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017 AND 2016**

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*.

Pending Adoption of Recent Accounting

In May 2014, the Financial Accounting Standards Board (“FASB”) issued a new accounting pronouncement regarding revenue recognition effective for reporting periods beginning after December 15, 2018. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

GASB Statement No. 87 - In June 2017, GASB issued GASB Statement No. 87 – *Leases*. The objective of this Statement is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Statement is effective for reporting periods beginning after December 15, 2019. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

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.

CONCHO COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 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 TCERS's fiduciary net position have been determined on the same basis as they are reported by TCERS. 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.

**CONCHO COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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, 2017 and 2016. 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.

CONCHO COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Risk Management - The District is exposed to various risks of loss from torts: theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disaster; and employee health, dental and accidental benefits. Commercial insurance coverage is purchased for claims arising from such matters.

Reclassifications – Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 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 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:

	<u>2017</u>	<u>2016</u>
Routine Patient Services	\$ 362,507	\$ 271,522
Ancillary Patient Services		
Inpatient	752,146	504,362
Outpatient	<u>7,002,304</u>	<u>8,206,103</u>
Gross Patient Service Revenue	8,116,957	8,981,987
Charity	(123,016)	(54,776)
Third-Party Contractual Adjustments	67,544	(943,429)
Provision for Bad Debts	(1,630,138)	(603,886)
Medicaid Supplemental Payments & Other Credits	<u>386,806</u>	<u>256,860</u>
Net Patient Service Revenue	<u><u>\$ 6,818,153</u></u>	<u><u>\$ 7,636,756</u></u>

**CONCHO COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016**

NOTE 2 - NET PATIENT SERVICE REVENUE (CONTINUED)

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, 2017 and 2016 are \$268,258 and \$618,972, respectively.

Charity Care - The value of charity care provided by the District based upon its established rates, was \$123,016 and \$54,776 in 2017 and 2016, 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 \$143,266 and \$62,701 for the years ended September 30, 2017 and 2016, 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, 2017 and 2016 were \$2,326,129 and \$2,589,607, respectively, all of which are covered by FDIC and also collateralized with securities held by the pledging financial institution in the District's name.

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.

CONCHO COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016

NOTE 4 - DEPOSITS WITH FINANCIAL INSTITUTIONS

At September 30, 2017 and 2016, the carrying amount of the District's deposits with financial institutions was \$4,228,808 and \$4,176,048, respectively. The bank balance at September 30, 2017 and 2016 was \$4,426,439 and \$4,341,461, respectively.

	<u>2017</u>	<u>2016</u>
Amount insured by the FDIC - Demand Deposits	\$ 284,631	\$ 485,838
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	<u>3,641,808</u>	<u>3,355,623</u>
Total bank balance	<u><u>\$ 4,426,439</u></u>	<u><u>\$ 4,341,461</u></u>

NOTE 5 - PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable consist of the following at September 30:

	<u>2017</u>	<u>2016</u>
Gross Accounts Receivable	\$ 2,318,609	\$ 1,546,239
Less: Allowance for Bad Debts	(1,486,258)	(308,853)
Allowance for Contractuals	<u>(192,483)</u>	<u>(522,483)</u>
Accounts Receivable, Net of Allowance	<u><u>\$ 639,868</u></u>	<u><u>\$ 714,903</u></u>

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:

	<u>2017</u>	<u>2016</u>
Medicare	13%	22%
Medicaid	2%	2%
Other Third-Party Payors	41%	39%
Patients	<u>44%</u>	<u>37%</u>
Total	<u><u>100%</u></u>	<u><u>100%</u></u>

CONCHO COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016

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, 2017 and 2016, was \$727,477 and \$697,957, respectively. As of September 30, 2017 and 2016, the balance of property taxes receivable, and its related allowance for uncollectible taxes are as follows:

	<u>2017</u>	<u>2016</u>
Property Taxes Receivable	\$ 57,022	\$ 46,234
Less: Allowance for Uncollectible Taxes	<u>(47,672)</u>	<u>(39,058)</u>
	<u>\$ 9,350</u>	<u>\$ 7,176</u>
Taxes Receivable, Net of Allowance		

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 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.

CONCHO COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016

NOTE 8 – CAPITAL ASSETS

Capital asset additions, retirements, and balances for the years ended September 30, 2017 and 2016 were as follows:

	Balance 09/30/16	Additions	Reclass/ Retirements	Balance 09/30/17
Land	\$ 3,180	\$ 102,333	\$ -	\$ 105,513
Building and improvements	5,447,852	71,687		5,519,539
Equipment	2,944,779	174,185	(165,000)	2,953,964
Capital leases	858,851	358,901	-	1,217,752
Totals at Historical Cost	9,254,662	707,106	(165,000)	9,796,768
Less Accumulated Depreciation for:				
Building and improvements	(1,067,448)	(191,556)	-	(1,259,004)
Equipment	(2,248,245)	(247,586)	165,000	(2,330,831)
Capital leases	(167,770)	(167,770)	-	(335,540)
Total Accumulated Depreciation	(3,483,463)	(606,912)	165,000	(3,925,375)
Capital Assets, Net	<u>\$ 5,771,199</u>	<u>\$ 100,194</u>	<u>\$ -</u>	<u>\$ 5,871,393</u>

CONCHO COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016

NOTE 8 – CAPITAL ASSETS-(CONTINUED)

	Balance 09/30/15	Additions	Reclass/ Retirements	Balance 09/30/16
Land	\$ 3,180	\$ -	\$ -	\$ 3,180
Building and improvements	5,145,538	302,314	-	5,447,852
Equipment	2,783,923	160,856	-	2,944,779
Capital leases	858,851	-	-	858,851
Totals at Historical Cost	8,791,492	463,170	-	9,254,662
Less Accumulated Depreciation for:				
Building and improvements	(883,692)	(183,756)	-	(1,067,448)
Equipment	(2,032,271)	(215,974)	-	(2,248,245)
Capital leases	-	(167,770)	-	(167,770)
Total Accumulated Depreciation	(2,915,963)	(567,500)	-	(3,483,463)
Capital Assets, Net	<u>\$ 5,875,529</u>	<u>\$ (104,330)</u>	<u>\$ -</u>	<u>\$ 5,771,199</u>

Total depreciation expense for 2017 and 2016, was \$606,912 and \$564,559, 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 09/30/16	Additions	Reductions	Balance 09/30/17	Due Within One Year
Notes Payable:					
Note #1	\$ 21,061	\$ -	\$ (21,061)	\$ -	\$ -
Capital Lease:					
Kingsbridge	649,435	-	(162,976)	486,459	168,223
GE	-	358,901	-	358,901	132,391
Total Long-Term Debt	<u>\$ 670,496</u>	<u>\$ 358,901</u>	<u>\$ (184,037)</u>	<u>\$ 845,360</u>	<u>\$ 300,614</u>

CONCHO COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016

NOTE 9 – LONG-TERM DEBT (CONTINUED)

	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	<u>807,328</u>	<u>-</u>	<u>(157,893)</u>	<u>649,435</u>	<u>162,976</u>
Total Long-Term Debt	<u>\$ 850,947</u>	<u>\$ -</u>	<u>\$ (180,451)</u>	<u>\$ 670,496</u>	<u>\$ 184,037</u>

The terms and due dates of the District's long-term debt, including note payable obligations, at September 30, 2017 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.
- GE: Capital lease obligation with vendor, for CT scanner equipment, payable in 11 monthly installments of \$9,457 followed by 48 monthly installments of \$4,067 at with a stated interest rate of (8.24%), matures August 2022.

The District follows the policy of capitalizing interest as a component of the cost of capital assets constructed for its own use. In 2017 and 2016, total interest incurred was \$22,347 and \$25,133, respectively, all of which was charged to interest expense.

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

For the Year Ending September 30,	<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>
2018	300,614	(11,151)
2019	238,613	(8,449)
2020	208,780	(8,843)
2021	55,071	(6,271)
2022	<u>42,282</u>	<u>(1,914)</u>
Total	<u>\$ 845,360</u>	<u>\$ (36,628)</u>

CONCHO COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016

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 \$185,517 and \$226,361, and received \$423,361 and \$532,216 for the years ended September 30, 2017 and 2016, respectively. The District recognized net revenue of \$245,534 and \$192,856 for the years ended September 30, 2017 and 2016, 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 \$7,689 and \$- for the years ended September 30, 2017 and 2016, 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 \$124,891 and \$112,454, and received \$283,935 and \$262,581 for the years ended September 30, 2017 and 2016, respectively. Additionally, the District recorded a net receivable of approximately \$161,502 and \$159,515 at September 30, 2017 and 2016, respectively. The District recognized net revenue of \$160,502 and \$159,515 for the years ended September 30, 2017 and 2016, respectively, which is included within other revenue in the statements of revenues, expenses, and changes in net position.

Indigent Care Affiliation - Under the demonstration waiver, 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 \$625,535 and \$657,845 for the years ended September 30, 2017 and 2016, respectively. As part of the affiliation agreement, the District provided \$109,784 and \$1,005,000 in funding to the program for the years ended September 30, 2017 and 2016, respectively. Additionally, the District has funded \$333,142 and \$667,489 which has been recorded as prepaid services in the accompanying statement of net position at September 30, 2017 and 2016, 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.

**CONCHO COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016**

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 \$110,191 and \$57,792 and received \$251,463 and \$159,913 at September 30, 2017 and 2016, respectively. The District recognized net revenue of \$141,272 and \$64,004 for the years ended September 30, 2017 and 2016, 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, 2017 and 2016 was \$46,043 and \$44,539, 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.

**CONCHO COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016**

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, 2017, the following employees were covered by the benefit terms:

	2016	2015
Inactive Employees or Beneficiaries Currently Receiving Benefits	16	15
Inactive Employees Entitled to but not Yet Receiving Benefits	29	17
Active Employees	55	44
Total	100	76

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.

**CONCHO COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016**

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, 2016, employees contributed approximately \$140,437, or 5.0% of covered payroll, and the District contributed approximately \$118,529, or 4.2% of covered payroll, to the Plan. 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.

Net Pension Liability

At September 30, 2017 and 2016, the District's net pension liability was measured as of December 31, 2016 and 2015, 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, 2016 and 2015 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age Normal
Amortization Method	Level percentage of payroll, closed
Inflation	3.0%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8.00%

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 projected to 2014 with 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 2014 with 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.

CONCHO COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016

NOTE 13 – EMPLOYEE BENEFITS (CONTINUED)

The actuarial assumptions used in the December 31, 2016 and 2015 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 of 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:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Geometric Real Rate of Return (Expected minus Inflation)</u>
U.S Equities	13.50%	4.70%
Private Equity	16.00%	7.70%
Global Equities	1.50%	5.00%
International Equities-Developed	10.00%	4.70%
International Equities-Emerging	7.00%	5.70%
Investment-Grade Bonds	3.00%	0.60%
High-Yield Bonds	3.00%	3.70%
Opportunistic Credit	2.00%	3.83%
Direct Lending	10.00%	8.15%
Distressed Debt	3.00%	6.70%
REIT Equities	2.00%	3.85%
Master Limited Partnerships (MLP's)	3.00%	5.60%
Private Real Estate Partnerships	6.00%	7.20%
Hedge Funds	20.00%	3.85%
	<u>100%</u>	

Discount Rate

The discount rate used to measure the total pension liability was 8.10% at December 31, 2016 and 2015. 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.

CONCHO COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016

NOTE 13 – EMPLOYEE BENEFITS (CONTINUED)

Discount Rate (Continued)

The following table summarizes the changes in the net pension liability as of December 31, 2016, the valuation date:

Changes in Net Pension Liability / (Asset)	Increase (Decrease)		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability / (Asset)
Balances as of December 31, 2015	\$ 2,777,585	\$ 2,608,557	\$ 169,028
Changes for the Year:			
Service Cost	235,645		235,645
Interest on Total Pension Liability	230,539		230,539
Effect of Plan Changes	-		-
Effect of Economic/Demographic Gains or Losses	(62,611)		(62,611)
Effect of Assumptions Changes or Inputs	-		-
Refund of Contributions	(6,503)	(6,503)	-
Benefit Payments	(89,280)	(89,280)	-
Administrative Expenses		(2,110)	2,110
Member Contributions		140,437	(140,437)
Net Investment Income		193,072	(193,072)
Employer Contributions		118,529	(118,529)
Other		4,959	(4,959)
Balances as of December 31, 2016	<u>\$ 3,085,375</u>	<u>\$ 2,967,661</u>	<u>\$ 117,714</u>

CONCHO COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016

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:

Changes in Net Pension Liability / (Asset)	Increase (Decrease)		
	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	<u>\$ 2,777,587</u>	<u>\$ 2,608,558</u>	<u>\$ 169,029</u>

CONCHO COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016

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:

	2016		
	1% Decrease	Current Discount Rate	1% Increase
	7.10%	8.10%	9.10%
Total Pension Liability	\$ 3,497,444	\$ 3,085,374	\$ 2,743,089
Fiduciary Net Position	2,967,661	2,967,661	2,967,661
Net Pension (Asset)/Liability	<u>\$ 529,783</u>	<u>\$ 117,713</u>	<u>\$ (224,572)</u>
	2015		
	1% Decrease	Current Discount Rate	1% Increase
	7.10%	8.10%	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	<u>\$ 548,675</u>	<u>\$ 169,029</u>	<u>\$ (146,339)</u>

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

CONCHO COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016

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, 2017 and 2016, the District recognized pension expense of \$142,938 and \$76,369, respectively. At September 30, 2017 and 2016, 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	\$ 62,203	-
Change of Assumptions	-	\$ 25,820
Net Difference Between Projected and Actual Earnings	-	\$ 162,475
Contributions Made Subsequent to Measurement Date	N/A	\$ 85,594

	2015	
	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

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:

2017	\$ 45,555
2018	45,555
2019	38,951
2020	(3,970)
2021	-
Thereafter	-

CONCHO COUNTY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
SEPTEMBER 30, 2017 AND 2016

NOTE 14 – SLEEP STUDIES PROGRAM

In 2015, the District began operating sleep study centers at different locations in the state of Texas. At September 30, 2017 and 2016, the Districted operated sleep clinics in Austin, Houston, and San Antonio. During 2017, the District terminated the contracts with the sleep study centers. For the years ended September 30, 2017 and 2016, the District recorded net patient service revenues of \$554,212 and \$1,741,085, respectively, related to the sleep study programs. For the years ended September 30, 2017 and 2016, the related expenses were \$492,200 and \$917,850, respectively.

	2017		
	Austin	Houston	San Antonio
Gross Patient Revenue	\$ 288,390	\$ 355,681	\$ 317,229
Contractual Adjustments	(114,939)	(141,759)	(126,433)
Provision for Bad Debt	(7,187)	(8,864)	(7,906)
Net Patient Service Revenue	166,264	205,058	182,890
Total Expenses	(157,000)	(151,600)	(183,600)
Income (Loss) from Operations	<u>\$ 9,264</u>	<u>\$ 53,458</u>	<u>\$ (710)</u>

	2016		
	Austin	Houston	San Antonio
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	<u>\$ 210,315</u>	<u>\$ 466,881</u>	<u>\$ 146,039</u>

NOTE 14 – SUBSEQUENT EVENTS

The date to which events occurring after September 30, 2017, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosure is April 26, 2018, which is the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

**CONCHO COUNTY HOSPITAL DISTRICT
REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2017 AND 2016**

Schedules of Changes in the District's Net Pension Asset and Related Ratios
Year Ended December 31,

	2016	2015	2014
Total Pension Liability			
Service Cost	\$ 235,645	187,401	148,554
Interest on Total Pension Liability	230,539	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	(62,611)	(17,194)	(1,302)
Benefit Payments/Refunds of Contributions	(95,783)	(91,224)	(66,310)
Net Change in Total Pension Liability	307,790	291,056	264,216
Total Pension Liability, Beginning	2,777,585	2,486,531	2,222,315
Total Pension Liability, Ending	<u>\$ 3,085,375</u>	<u>2,777,587</u>	<u>2,486,531</u>
Fiduciary Net Position			
Employer Contributions	\$ 118,529	114,882	114,839
Member Contributions	140,437	128,216	112,367
Investment Income Net of Investment Expenses	193,072	(8,041)	150,962
Benefit Payments/Refunds of Contributions	(95,783)	(91,224)	(66,310)
Administrative Expenses	(2,110)	(1,836)	(1,798)
Other	4,959	(1,628)	(25,558)
Net Changes in Fiduciary Net Position	359,104	140,369	284,502
Fiduciary Net Position, Beginning	2,608,557	2,468,189	2,183,687
Fiduciary Net Position, Ending	<u>\$ 2,967,661</u>	<u>2,608,558</u>	<u>2,468,189</u>
Net Pension Liability/(Asset), Ending	<u>\$ 117,714</u>	<u>169,029</u>	<u>18,343</u>
Fiduciary Net Position as a % of Total Pension Liability	96.18%	93.91%	99.26%
Pensionable Covered Payroll	\$ 2,808,736	2,564,329	2,247,336
Net Pension Liability as a % of Covered Payroll	4.19%	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, 2017 AND 2016**

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
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%
2016	118,529	118,529	-	2,808,736	4.2%

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.

Methods and assumptions used to determine contributions rates:

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	13.2 year (based on contribution rate calculated in 12/31/2016 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	3.0%
Salary Increases	Varies by age and service. 4.9% average 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 Schedule	No changes in plan provisions are reflected in the Schedule of Employer Contributions.

See Independent Auditor's Report on required supplemental information.



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, 2017 and 2016, and have issued our report thereon dated April 26, 2018, 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 29-32, 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
April 26, 2018

CONCHO COUNTY HOSPITAL DISTRICT
NET PATIENT SERVICE REVENUE AND
OTHER OPERATING REVENUE
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Routine Services		
Routine services	\$ 362,507	\$ 271,522
Ancillary and Other Services		
Inpatient:		
Radiology and nuclear medicine	67,957	44,798
Laboratory	69,857	45,635
Respiratory therapy	62,675	46,680
Physical therapy	76,286	45,003
Electrocardiology	2,151	1,398
Central supply	80,332	44,367
Pharmacy	318,646	230,156
Emergency	74,242	24,734
Observation	-	21,591
Total Inpatient Ancillary Services	<u>752,146</u>	<u>504,362</u>
Outpatient:		
Radiology and nuclear medicine	703,499	765,532
Laboratory	799,456	883,529
Respiratory therapy	5,024	5,865
Physical therapy	1,407,881	2,603,809
Electrocardiology	57,022	56,814
Central supply	29,987	15,475
Pharmacy	88,639	80,582
Emergency room	1,676,958	1,529,622
Observation	419,761	384,675
Retail Pharmacy	1,808,610	1,856,547
Health and Wellness	5,467	23,653
Total Outpatient Ancillary Services	<u>7,002,304</u>	<u>8,206,103</u>
Gross Patient Revenue	<u><u>\$ 8,116,957</u></u>	<u><u>\$ 8,981,987</u></u>

See Independent Accountant's Report on Other Financial Information.

CONCHO COUNTY HOSPITAL DISTRICT
NET PATIENT SERVICE REVENUE AND
OTHER OPERATING REVENUE (CONTINUED)
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Gross Patient Revenue	\$ 8,116,957	\$ 8,981,987
Deductions from Revenue:		
Charity	(123,016)	(54,776)
Third-Party Contractual Adjustments	67,544	(943,429)
Provision for Bad Debts	(1,630,138)	(603,886)
Medicaid Supplemental Payments & Other Credits	<u>386,806</u>	<u>256,860</u>
Total Deductions from Revenue	<u>(1,298,804)</u>	<u>(1,345,231)</u>
Net Patient Service Revenue	<u><u>\$ 6,818,153</u></u>	<u><u>\$ 7,636,756</u></u>
Other Operating Revenue		
Office Rents	\$ 39,952	\$ 43,584
DSRIP Revenue	161,502	160,407
Miscellaneous	<u>17,190</u>	<u>35,641</u>
Total Other Operating Revenue	<u><u>\$ 218,644</u></u>	<u><u>\$ 239,632</u></u>

See Independent Accountant's Report on Other Financial Information.

CONCHO COUNTY HOSPITAL DISTRICT
OPERATING EXPENSES
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Routine Services	\$ 1,249,795	\$ 1,221,069
Ancillary Services		
Radiology and nuclear medicine	280,181	295,522
Laboratory	361,498	362,648
Respiratory therapy	2,926	1,880
Physical therapy	570,061	1,035,698
Electrocardiology	4,749	4,580
Central supply	42,750	34,674
Pharmacy	94,882	94,328
Emergency	930,988	970,169
Ambulance	72,800	66,620
Retail Pharmacy	1,695,450	1,439,089
Health and Wellness	128,747	147,260
Total Ancillary Services	<u>4,185,032</u>	<u>4,452,468</u>

See Independent Accountant's Report on Other Financial Information.

CONCHO COUNTY HOSPITAL DISTRICT
OPERATING EXPENSES (CONTINUED)
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
General Services		
Operation and Plant	256,603	215,906
Laundry and Linen	37,975	33,525
Housekeeping	44,046	32,934
Dietary	111,914	64,644
Total General Services	<u>450,538</u>	<u>347,009</u>
Administrative Services		
Salaries	520,630	548,594
Other operating	438,486	345,006
Employee Benefits	639,632	531,414
Medical Records	6,260	21,283
Rental expense	20,521	20,711
Travel and Seminars	13,350	8,534
Insurance	37,246	28,952
Legal and Accounting Fees	78,636	65,892
Marketing	1,261	673
General Supplies	78,329	57,239
Computer Maintenance	134,886	110,645
Total Administrative Services	<u>1,969,237</u>	<u>1,738,943</u>
Depreciation	<u>606,912</u>	<u>564,559</u>
Total Operating Expenses	<u><u>\$ 8,461,514</u></u>	<u><u>\$ 8,324,048</u></u>

See Independent Accountant's Report on Other Financial Information.