CONCHO COUNTY HOSPITAL DISTRICT
EDEN, TEXAS

AS OF AND FOR THE YEARS ENDED
SEPTEMBER 30, 2019 AND 2018

DURBIN&CO LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statement of net position of Concho County Hospital District, (the "District") as of September 30, 2019 and 2018, and the related statements of revenues, expenses, and changes in net position and cash flows for the ears then ended, and the related notes to the financial statements, which collectively comprise the District's basic financial statements.

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, 2019 and 2018, 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 29 through 31, 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 28, 2020

CONCHO COUNTY HOSPITAL DISTRICT
EDEN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

CONCHO COUNTY HOSPITAL DISTRICT
UNAUDITED MANAGEMENT DISCUSSION AND ANALYSIS
AND FINACIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

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, 2019 and 2018. 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 $175,593 or 1.7% increase in 2019 and a $438,567 or 4.1% decrease in 2018.
- Net patient service revenue increased by $388,334 or 5.9% in 2019 and decreased by $183,316 or 2.7% in 2018.
- The District reported operating losses in 2019 and 2018 of $610,201 and $868,665, respectively. The operating loss in 2019 had a favorable decrease of $258,464 or 29.8% over losses reported in 2018.
- Nonoperating revenues (expenses) increased $355,696 or 82.7% in 2019 over 2018. In 2018, nonoperating revenues (expenses) decreased $482,995 or 52.9% over 2017.

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 $175,593 or 1.7% in 2019 and decreased by $438,567 or 4.1% in 2018, as you can see from **Table 1**.

Table 1: Assets, Liabilities, and Net Position

	2019	2018	2017
Assets:			
Current Assets	$ 6,302,473	$ 5,774,107	$ 5,933,873
Capital Assets (net)	5,148,005	5,302,863	5,871,393
Deferred Outflows of Resources	316,144	114,403	273,890
Net Pension Asset	-	126,231	-
Total Assets and Deferred Outflows of Resources	$ 11,766,622	$ 11,317,604	$ 12,079,156
Liabilities:			
Long-Term Debt Outstanding	$ 310,461	$ 549,112	$ 845,360
Other Current and Non-Current	936,706	353,828	466,281
Deferred Inflows of Resources	77,117	147,919	62,203
Total Liabilities and Deferred Inflows of Resources	1,324,284	1,050,859	1,373,844
Total Net Position	10,442,338	10,266,745	10,705,312
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 11,766,622	$ 11,317,604	$ 12,079,156

Total assets and deferred outflows of resources increased by $449,018 or 4.0% in 2019, primarily due to the increase in estimated third-party payor settlements. Total liabilities and deferred inflows of resources increased $273,425 or 26.0% in 2018, primarily due to the increase in other accrued liabilities relating to the 1115 waiver program.

OPERATING RESULTS AND CHANGES IN THE DISTRICT'S NET POSITION

The District's net position increased by $175,593 and decreased by $438,567 in 2019 and 2018, 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

	2019	2018	2017
Operating Revenues:			
Net Patient Service Revenue	$ 7,023,171	$ 6,634,837	$ 6,818,153
Delivery System Reform Incentive Program	39,607	31,837	161,502
Other Operating Revenue	58,531	53,408	57,142
Total Operating Revenue	7,121,309	6,720,082	7,036,797
Operating Expenses:			
Salaries, Benefits and Payroll Taxes	3,355,153	3,486,496	3,830,729
Other Operating Expenses	3,815,774	3,462,085	4,023,873
Depreciation / Amortization	560,583	640,166	606,912
Total Operating Expenses	7,731,510	7,588,747	8,461,514
Operating Income (Loss)	(610,201)	(868,665)	(1,424,717)
Nonoperating Revenues and Expenses:			
Property Tax Revenue	735,288	726,619	727,477
Noncapital Grants and Contributions	9,660	-	-
Community Benefit Support	-	-	625,535
Intergovernmental Transfer	-	(333,142)	(444,130)
Investment Income	18,543	14,630	11,179
Interest Expense	8,449	6,371	(22,347)
Other	13,854	15,620	15,379
Total Nonoperating Revenues (Expenses)	785,794	430,098	913,093
Increase (Decrease) in Net Position	175,593	(438,567)	(511,624)
Net Position, Beginning of Year	10,266,745	10,705,312	11,216,936
Net Position, End of Year	$ 10,442,338	$ 10,266,745	$ 10,705,312

OPERATING RESULTS AND CHANGES IN THE DISTRICT'S NET POSITION (CONTINUED)

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 2019 and 2018 of $610,201 and $868,665, respectively.

The primary components of the decreased operating loss in 2019 are:

- Increase in net patient service revenue of $388,334 or 5.9%.
- Decrease in salaries, benefits, and payroll taxes of $131,343 or 3.8%.

The primary components of the decreased operating loss in 2018 are:

- Decrease in salaries, benefits, and payroll taxes of $344,233 or 9.0%.
- Decrease in supplies and other operating expenses of $561,788 or 14.0%.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of property taxes levied by the District, community benefit support, and investment income. Property tax revenue increased by $8,669, or 1.2%, in 2019 and decreased by $858, or 0.1%, in 2018.

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.

The net of all cash flow activities resulted in a net decrease in cash and cash equivalents of $137,272 and a net increase of $195,051 in 2019 and in 2018.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At September 30, 2019 and 2018, the District had $5,148,005 and $5,302,863, 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 $405,725 and $71,636 in 2019 and 2018, respectively. Depreciation expense totaled $560,583 and $640,166 in 2019 and 2018, respectively.

CAPITAL ASSETS AND DEBT ADMINISTRATION (CONTINUED)

Debt

At September 30, 2019 the District had long-term debt outstanding of $310,461 and $549,112, respectively, as detailed in Note 9 of the financial statements. During fiscal year 2019 and 2018, the District made payments of $238,651 and $296,248, 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, Eden, Texas 76837.

CONCHO COUNTY HOSPITAL DISTRICT
EDEN, TEXAS

FINANCIALS

AS OF AND FOR THE YEARS ENDED
SEPTEMBER 30, 2019 AND 2018

CONCHO COUNTY HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

SEPTEMBER 30, 2019 AND 2018

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:	2019	2018
CURRENT ASSETS		
Cash and Cash Equivalents	$ 1,960,458	$ 2,097,730
Short-Term Investments	2,337,899	2,330,902
Patient Accounts Receivable, Net of Allowance	649,687	735,275
Estimated Third-Party Payor Settlements	931,260	111,605
Other Receivables	186,088	238,155
Inventory of Supplies	210,592	235,553
Prepaid and Other Current Assets	18,865	16,881
Property Taxes Receivable	7,624	8,006
Total Current Assets	6,302,473	5,774,107
NONCURRENT ASSETS		
Land	105,513	105,513
Depreciable Capital Assets, Net	5,042,492	5,197,350
Total Noncurrent Assets	5,148,005	5,302,863
Total Assets	11,450,478	11,076,970
DEFERRED OUTFLOWS OF RESOURCES		
Difference Between Projected and Actual Earnings	221,987	-
Contributions Made Subsequent to Measurement Date	68,127	78,638
Changes In Assumption	26,030	35,765
Total Deferred Outflows of Resources	316,144	114,403
NET PENSION ASSET	-	126,231
Total Assets and Deferred Outflows of Resources	$ 11,766,622	$ 11,317,604

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

CONCHO COUNTY HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

SEPTEMBER 30, 2019 AND 2018

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION:	2019	2018
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 208,779	$ 238,613
Accounts Payable	309,572	156,270
Accrued Payroll, Benefits, and Related Liabilities	194,368	184,808
Other Accrued Liabilities	212,866	12,750
Total Current Liabilities	925,585	592,441
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Portion	101,682	310,499
Net Pension Liability	219,900	-
Total Noncurrent Liabilities	321,582	310,499
Total Liabilities	1,247,167	902,940
DEFERRED INFLOWS OF RESOURCES		
Differences Between Projected and Actual Earnings	-	44,144
Differences Between Expected and Actual Experience	77,117	103,775
Total Deferred Inflows of Resources	77,117	147,919
Total Liabilities and Deferred Inflows of Resources	1,324,284	1,050,859
NET POSITION		
Net Investment in Capital Assets	4,837,544	4,753,751
Unrestricted	5,604,794	5,512,994
Total Net Position	10,442,338	10,266,745
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 11,766,622	$ 11,317,604

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, 2019 AND 2018

	2019	2018
OPERATING REVENUES:		
Net Patient Service Revenue	$ 7,023,171	$ 6,634,837
Delivery System Reform Incentive Program	39,607	31,837
Other Revenue	58,531	53,408
Total Operating Revenues	7,121,309	6,720,082
OPERATING EXPENSES:		
Salaries	2,651,207	2,834,768
Employee Benefits and Payroll Taxes	703,946	651,728
Professional Fees and Purchased Services	1,618,828	1,708,466
Supplies	1,406,384	1,181,189
Other Operating	790,562	572,430
Depreciation and Amortization	560,583	640,166
Total Operating Expenses	7,731,510	7,588,747
Operating Income (Loss)	(610,201)	(868,665)
NONOPERATING REVENUES (EXPENSES):		
Property Tax Revenue	735,288	726,619
Noncapital Grants and Contributions	9,660	-
Intergovernmental Transfer	-	(333,142)
Investment Income	18,543	14,630
Interest Expense	8,449	6,371
Other Non Operating Revenue	13,854	15,620
Total Nonoperating Revenues (Expenses)	785,794	430,098
Increase (Decrease) in Net Position	175,593	(438,567)
Net Position, Beginning of Year	10,266,745	10,705,312
Net Position, End of Year	$ 10,442,338	$ 10,266,745

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, 2019 AND 2018

	2019	2018
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from and on Behalf of Patients	$ 6,474,104	$ 6,696,083
Other Receipts and Payments, net	165,321	68,599
Payments to Suppliers and Contractors	(3,490,397)	(3,481,595)
Payments to Employees	(3,421,103)	(3,479,963)
Net cash provided by (used by) operating activities	(272,075)	(196,876)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Earnings	18,543	14,630
Purchase of Investments	(6,997)	(4,773)
Net Cash Provided by (Used by) Investing Activities	11,546	9,857
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt and Notes Payable	(238,651)	(271,956)
Interest Payments on Long-Term Debt and Notes Payable	8,449	(17,921)
Purchase of Capital Assets	(405,725)	(71,636)
Net Cash Used by Capital and Related Financing Activities	(635,927)	(361,513)
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES		
Property Taxes	735,670	727,963
Noncapital Grants and Contributions	9,660	-
Other	13,854	15,620
Net Cash Provided by (Used in) Noncapital Financing Activities	759,184	743,583
Net Increase (Decrease) in Cash and Cash Equivalents	(137,272)	195,051
Cash and Cash Equivalents, Beginning of Year	2,097,730	1,902,679
Cash and Cash Equivalents, End of Year	$ 1,960,458	$ 2,097,730

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, 2019 AND 2018

	2019	2018
RECONCILIATION OF CASH AND EQUIVALENTS TO STATEMENTS OF NET POSITION:		
Cash and equivalents presented under the following titles:		
Cash and Cash Equivalents	$ 1,960,458	$ 2,097,730
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income (Loss)	$ (610,201)	$ (868,665)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided by Operating Activities:		
Provision for Bad Debt	692,748	592,787
Depreciation and Amortization	560,583	640,166
(Increase) Decrease in:		
Accounts Receivable	(607,160)	(688,194)
Prepaid Expenses and Other Current Assets	75,044	(36,142)
Estimated Third-Party Payor Settlements	(819,655)	156,653
Net Pension Asset	126,231	(126,231)
Deferred Outflows of Resources	(201,741)	159,487
Increase (Decrease) in:		
Accounts Payable	153,302	61,181
Accrued Salaries and Benefits Payable	9,560	(26,723)
Other Accrued Liabilities	200,116	(29,197)
Net Pension Liability	219,900	(117,714)
Deferred Inflows of Resources	(70,802)	85,716
Net Cash Provided By (Used in) Operating Activities	$ (272,075)	$ (196,876)

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 16-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 Pronouncement:

GASB Statement No. 88 – In April 2018, GASB issued GASB Statement No. 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Statement is effective for reporting periods beginning after June 15, 2018.

Pending Adoption of Recent Accounting Pronouncements:

Accounting Standards Update (ASU) No. 2014-09 – In May 2014, the Financial Accounting Standards Board ("FASB") issued ASU No. 2014-09, *Revenue from Contracts with Customers* (Topic 606). ASU 2014-09 was implemented by FASB to whether an entity should recognize revenue. An entity should recognize revenue to depict the transfers of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU 2014-09 is effective for fiscal years beginning after December 15, 2018, with early implementation permitted. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

Accounting Standards Update No. 2016-02: In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update No. 2016-02 ("ASU 2016-02"), *Leases* (Topic 842). ASU 2016-02 was implemented by FASB to increase transparency and comparability among entities by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing transactions. ASU 2016-02 is effective for fiscal years beginning after December 15, 2019, with early implementation permitted. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pending Adoption of Recent Accounting Pronouncements (Continued):

GASB Statement No. 87 – In June 2017, GASB issued GASB Statement No. 87 – *Leases*. The objective of the 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 disclosures.

GASB Statement No. 89 – In June 2018, GASB issued GASB Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period. The Statement is effective for reporting periods beginning after December 15, 2019. Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

GASB Statement No. 90 – In August 2018, GASB issued GASB Statement No. 90, *Majority Equity Interests – An Amendment of GASB Statements No. 14 and No. 61*. The primary objectives of this Statement are to improve the consistency and comparability of reporting a government's majority equity interests in a legally separate organization and to improve the relevance of financial statement information for certain component units. The Statement is effective for reporting periods beginning after December 15, 2018. Management is currently evaluating the effect this statement will have on financial statements and related disclosures.

GASB Statement No. 91 – Governmental Accounting Standards Board Statement No. 91, *Conduit Debt Obligations*. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for periods beginning after December 15, 2020.

GASB Statement No. 92 – In January 2020, the Governmental Accounting Standards Board ("GASB") issued GASB Statement No. 92 – *Omnibus 2020.* The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of GASB Statement No. 87, *Leases* to be effective for *fiscal years* beginning after December 15, 2019 and is effective for all reporting periods thereafter;
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB);

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pending Adoption of Recent Accounting Pronouncements (Continued):

- The applicability of GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68,* as amended, and No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans,* as amended, to reporting assets accumulated for postemployment benefits;
- The applicability of certain requirements of GASB Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements;
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition;
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers;
- Reference to nonrecurring fair value measurements of assets and liabilities in authoritative literature;
- Terminology used to refer to derivative instruments.

The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance;
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020;
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020;
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020.

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.

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 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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Net Position – Net position of the District is classified in three components: net investment in capital assets; restricted; and unrestricted. The net investment in capital assets component of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of bonds, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets. The restricted component of net position consists of restricted assets reduced by liabilities and deferred inflows of resources related to those assets. The unrestricted component of net position is the net amounts of the assets and liabilities that are not included in the determination of net investment in capital assets or the restricted component of net position.

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 10% and 11% of its financial support from property taxes for the years ended September 30, 2019 and 2018. 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.

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 2018 financial statements to conform to the 2019 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:

	2019	2018
Routine Patient Services	$ 457,075	$ 268,904
Ancillary Patient Services		
Inpatient	406,353	687,138
Outpatient	7,572,881	7,746,376
Gross Patient Service Revenue	8,436,309	8,702,418
Charity	(665,164)	(17,399)
Third-Party Contractual Adjustments	(655,014)	(1,928,461)
Provision for Bad Debts	(692,748)	(592,787)
Medicaid Supplemental Payments & Other Credits	599,788	471,066
Net Patient Service Revenue	$ 7,023,171	$ 6,634,837

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, 2019 and 2018 are $931,260 and $111,605, respectively.

Charity Care - The value of charity care provided by the District based upon its established rates, was $665,164 and $17,399 in 2019 and 2018, 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 $672,107and $16,237 for the years ended September 30, 2019 and 2018, 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, 2019 and 2018 were $2,337,899 and $2,330,902, 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.

NOTE 4 - DEPOSITS WITH FINANCIAL INSTITUTIONS

At September 30, 2019 and 2018, the carrying amount of the District's deposits with financial institutions was $4,298,357 and $4,428,632, respectively. The bank balance at September 30, 2019 and 2018 was $4,520,411 and $4,625,198 , respectively.

	2019	2018
Amount insured by the FDIC - Demand Deposits	$ 280,761	$ 461,954
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	3,739,650	3,663,244
Total bank balance	$ 4,520,411	$ 4,625,198

NOTE 5 - PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable consist of the following at September 30:

	2019	2018
Gross Accounts Receivable	$ 2,494,809	$ 2,673,684
Less: Allowance for Bad Debts	(1,452,639)	(1,545,926)
Allowance for Contractuals	(392,483)	(392,483)
Accounts Receivable, Net of Allowance	$ 649,687	$ 735,275

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:

	2019	2018
Medicare	17%	17%
Medicaid	3%	4%
Other Third-Party Payors	6%	8%
Patients	74%	71%
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, 2019 and 2018, was $735,288 and $726,619, respectively. As of September 30, 2019 and 2018, the balance of property taxes receivable, and its related allowance for uncollectible taxes are as follows:

	2019	2018
Property Taxes Receivable	$ 51,905	$ 52,287
Less: Allowance for Uncollectible Taxes	(44,281)	(44,281)
Taxes Receivable, Net of Allowance	$ 7,624	$ 8,006

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.

For the fiscal year ending September 30, 2019 and 2018, the District has reported the following tax abatement agreements noted below:

225DD 8me, LLC – Effective May 28, 2019, the District entered into a tax abatement agreement with 225DD 8me, LLC for the development of alternating current solar powered electric power generating facilities (solar farm), 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 (estimated to be January 1, 2020) and terminate on the tenth year following the commencement date, unless sooner terminated. As consideration for the abatement granted by the District, 225DD 8me, LLC agrees to timely perform all covenants pursuant to the terms of the agreement including making of an annual payment in lieu of taxes to the District for each year during the abatement period. The payment in lieu of taxes shall be calculated by multiplying the number of megawatts of installed rated electrical generating capacity of the improvements by $324. 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 7 – PROPERTY TAX ABATEMENT (CONTINUED)

RES Cactus Flats Wind Energy – Effective June 28, 2016, the District entered into a 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 (estimated to be January 1, 2019) and terminate on the tenth year following the commencement date, unless sooner terminated. As consideration for the abatement granted by the District, RES Cactus Flats agrees to timely perform all covenants pursuant to the terms of the agreement including making of an annual payment in lieu of taxes to the District for each year during the abatement period. The payment in lieu of taxes shall be calculated by multiplying the number of megawatts of installed rated electrical generating capacity of the improvements by $750. 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.

Maverick Creek Wind, LLC – Effective July 24, 2018, the District entered into a tax abatement agreement with Maverick Creek Wind, LLC 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 (estimated to be January 1, 2022) and terminate on the tenth year following the commencement date, unless sooner terminated. As consideration for the abatement granted by the District, Maverick Creek Wind, LLC agrees to timely perform all covenants pursuant to the terms of the agreement including making of an annual payment in lieu of taxes to the District for each year during the abatement period. The payment in lieu of taxes shall be calculated by multiplying the number of megawatts of installed rated electrical generating capacity of the improvements by $725. 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, 2019 and 2018 were as follows:

	Balance 09/30/18	Additions	Reclass/ Retirements	Balance 09/30/19
Land	$ 105,513	$ -	$ -	$ 105,513
Building and improvements	5,540,808	215,866		5,756,674
Equipment	3,004,331	189,859		3,194,190
Capital leases	1,217,752	-	-	1,217,752
Totals at Historical Cost	9,868,404	405,725	-	10,274,129
Less Accumulated Depreciation for:				
Building and improvements	(1,455,028)	(197,906)	-	(1,652,934)
Equipment	(2,535,423)	(123,127)		(2,658,550)
Capital leases	(575,090)	(239,550)	-	(814,640)
Total Accumulated Depreciation	(4,565,541)	(560,583)	-	(5,126,124)
Capital Assets, Net	$ 5,302,863	$ (154,858)	$ -	$ 5,148,005

NOTE 8 – CAPITAL ASSETS (CONTINUED)

	Balance 09/30/17	Additions	Reclass/ Retirements	Balance 09/30/18
Land	$ 105,513	$ -	$ -	$ 105,513
Building and improvements	5,519,539	21,269	-	5,540,808
Equipment	2,953,964	50,367	-	3,004,331
Capital leases	1,217,752	-	-	1,217,752
Totals at Historical Cost	9,796,768	71,636	-	9,868,404
Less Accumulated Depreciation for:				
Building and improvements	(1,259,004)	(196,024)	-	(1,455,028)
Equipment	(2,330,831)	(204,592)	-	(2,535,423)
Capital leases	(335,540)	(239,550)	-	(575,090)
Total Accumulated Depreciation	(3,925,375)	(640,166)	-	(4,565,541)
Capital Assets, Net	$ 5,871,393	$ (568,530)	$ -	$ 5,302,863

Total depreciation expense for 2019 and 2018, was $560,583 and $640,166, 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 09/30/18	Additions	Reductions	Balance 09/30/19	Due Within One Year
Capital Lease:					
Kingsbridge	322,601	-	(173,639)	148,962	148,961
GE	226,511	-	(65,012)	161,499	59,818
Total Long-Term Debt	$ 549,112	$ -	$ (238,651)	$ 310,461	$ 208,779

NOTE 9 – LONG-TERM DEBT (CONTINUED)

	Balance 09/30/17	Additions	Reductions	Balance 09/30/18	Due Within One Year
Capital Lease:					
Kingsbridge	486,459	-	(163,858)	322,601	173,639
GE	358,901	-	(132,390)	226,511	64,974
Total Long-Term Debt	$ 845,360	$ -	$ (296,248)	$ 549,112	$ 238,613

The terms and due dates of the District's long-term debt at September 30, 2019 are as follows:

- 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 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 2019 and 2018, total interest incurred was $8,449 and $6,371, respectively, all of which was charged to interest expense.

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

	Capital Lease Obligations	
For the Year Ending	Principal	Interest
September 30,		
2020	208,779	(8,843)
2021	55,071	(6,271)
2022	46,611	(1,914)
Total	$ 310,461	$ (17,028)

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 $541,575 and $199,932, and received $1,289,087 and $471,353 for the years ended September 30, 2019 and 2018, respectively. The District recognized net revenue of $634,260 and $376,983 for the years ended September 30, 2019 and 2018, 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 $113,251 for the years ended September 30, 2019 and 2018, 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 $29,248 and $147,683, and received $68,854 and $340,722 for the years ended September 30, 2019 and 2018, respectively. The District recognized net revenue of $39,607 and $31,837 for the years ended September 30, 2019 and 2018, 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 finding for the indigent population. Under this program, the District contributed 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 programs ended during fiscal year 2017. During 2017, these services were valued at $625,535. As part of the affiliation agreement, the District provided $109,784 in funding to the program during 2017. Additionally, the District funded $333,142, which was recorded as a prepaid in 2017. This is included within nonoperating revenue (expenses) in the statements of revenues, expenses, and changes in net position.

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.

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 recognized net revenue of $121,870 and $92,128 for the years ended September 30, 2019 and 2018, 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, 2019 and 2018 was $12,409 and $46,139, respectively.

Texas Medicaid 1115 Healthcare Transformation Waiver Recoupment Liability – During 2017, several hospitals filed a lawsuit against the federal government challenging the rule calculating disproportionate share (DSH) and uncompensated care (UC) payments. The hospitals claimed the rule's definition of "costs incurred" was contrary to the Medicaid Act. The main issue is whether payments made by Medicare and private insurers should be subtracted from a hospital's "costs incurred" in the calculation of the Medicaid Hospital Specific Limit (HSL). In August 2019, the D.C. Circuit reinstated the 2017 Final Rule as adopted by the Centers for Medicare and Medicaid Services. As a result, the HSL was subsequently recalculated, resulting in numerous hospitals receiving DSH and UC funds in excess of the calculated limit during demonstration years 7 and 8. Consequently, management has recorded an estimate for the anticipated recoupment of DSH and UC funds at September 30, 2019. At September 30, 2019, management recorded an estimated recoupment liability of $185,000. The recoupment liability is included within other accrued liabilities in the accompanying combined statements of net position.

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.

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.

The following employees were covered by the benefit terms at December 31:

	2018	2017
Inactive Employees or Beneficiaries Currently Receiving Benefits	19	19
Inactive Employees Entitled to but not Yet Receiving Benefits	31	32
Active Employees	70	58
Total	120	109

NOTE 13 – EMPLOYEE BENEFITS (CONTINUED)

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.

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, 2018, employees contributed $137,976, or 5.0% of covered payroll, and the District contributed $102,102, or 3.7% of covered payroll, to the Plan. For the plan year ended December 31, 2017, employees contributed $150,171, or 5.0% of covered payroll, and the District contributed $108,123, or 3.6% of covered payroll, to the Plan.

Net Pension Asset/(Liability)

At September 30, 2019 and 2018, the District's net pension asset/(liability) was measured as of December 31, 2018 and 2017, 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 asset/(liability) in the December 31, 2018 and 2017 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	Level percentage of payroll, closed
Inflation	2.75%
Salary Increases	Varies by age and service. 4.9% average over career including inflation.
Investment Rate of Return	8%, net of administrative and investment expenses, including inflation.

All actuarial assumptions that determined the total pension asset as of December 31, 2018 were based on the results of an actuarial experience study for the period January 1, 2013 – December 31, 2016, except where required to be different by GASB 68.

NOTE 13 – EMPLOYEE BENEFITS (CONTINUED)

Mortality rates were based as follows:

Depositing Members	90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014.
Service Retirees, Beneficiaries and Non-depositing Members	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Disabled Retirees	130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014

Net Pension Asset/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	10.50%	5.40%
Private Equity	18.00%	8.40%
Global Equities	2.50%	5.70%
International Equities-Developed	10.00%	5.40%
International Equities-Emerging	7.00%	5.90%
Investment-Grade Bonds	3.00%	1.60%
Strategic Credit	12.00%	4.39%
Direct Lending	11.00%	7.95%
Distressed Debt	2.00%	7.20%
REIT Equities	2.00%	4.15%
Master Limited Partnerships (MLP's)	3.00%	5.35%
Private Real Estate Partnerships	6.00%	6.30%
Hedge Funds	13.00%	3.90%
	100%	

NOTE 13 – EMPLOYEE BENEFITS (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 8.10% at December 31, 2018 and 2017. 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.

The following table summarizes the changes in the net pension liability as of December 31, 2018, 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, 2017	$ 3,399,856	$ 3,526,088	$ (126,232)
Changes for the Year:			
Service Cost	233,795	-	233,795
Interest on Total Pension Liability	287,954	-	287,954
Effect of Plan Changes	-	-	-
Effect of Economic/Demographic Gains or Losses	(459)	-	(459)
Effect of Assumptions Changes or Inputs	-	-	-
Refund of Contributions	(23,493)	(23,493)	-
Benefit Payments	(136,947)	(136,947)	-
Administrative Expenses	-	(2,844)	2,844
Member Contributions	-	137,976	(137,976)
Net Investment Income	-	(64,801)	64,801
Employer Contributions	-	102,102	(102,102)
Other	-	2,727	(2,727)
Balances as of December 31, 2018	$ 3,760,706	$ 3,540,808	$ 219,898

NOTE 13 – EMPLOYEE BENEFITS (CONTINUED)

Discount Rate (Continued)

The following table summarizes the changes in the net pension liability as of December 31, 2017, 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, 2016	$ 3,085,374	$ 2,967,660	$ 117,714
Changes for the Year:			
Service Cost	234,946	-	234,946
Interest on Total Pension Liability	263,580	-	263,580
Effect of Plan Changes	-	-	-
Effect of Economic/Demographic Gains or Losses	(68,612)	-	(68,612)
Effect of Assumptions Changes or Inputs	19,680	-	19,680
Refund of Contributions	(20,266)	(20,266)	-
Benefit Payments	(114,848)	(114,848)	-
Administrative Expenses	-	(2,345)	2,345
Member Contributions	-	150,171	(150,171)
Net Investment Income	-	435,169	(435,169)
Employer Contributions	-	108,123	(108,123)
Other	-	2,421	(2,421)
Balances as of December 31, 2017	$ 3,399,854	$ 3,526,085	$ (126,231)

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:

	2018		
	1% Decrease	Current Discount Rate	1% Increase
	7.10%	8.10%	9.10%
Total Pension Liability	$ 4,287,018	$ 3,760,706	$ 3,321,002
Fiduciary Net Position	3,540,807	3,540,807	3,540,807
Net Pension (Asset)/Liability	$ 746,211	$ 219,899	$ (219,805)

	2017		
	1% Decrease	Current Discount Rate	1% Increase
	7.10%	8.10%	9.10%
Total Pension Liability	$ 3,866,463	$ 3,399,856	$ 3,009,358
Fiduciary Net Position	3,526,088	3,526,088	3,526,088
Net Pension (Asset)/Liability	$ 340,375	$ (126,232)	$ (516,730)

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, 2019 and 2018, the District recognized pension expense of $171,449 and $110,241, respectively. At September 30, 2019 and 2018, the District reported deferred outflows of resources and deferred inflows of resources related to the TCDRS defined benefit pension plan from the following sources:

	2018	
	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	$ 77,116	$ -
Change of Assumptions	-	26,030
Net Difference Between Projected and Actual Earnings	-	221,987
Contributions Made Subsequent to Measurement Date	N/A	68,127

	2017	
	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	$ 103,774	$ -
Change of Assumptions	-	35,765
Net Difference Between Projected and Actual Earnings	44,145	-
Contributions Made Subsequent to Measurement Date	N/A	78,638

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:	
2019	$ 63,455
2020	20,533
2021	24,504
2022	62,483
2023	(74)
Thereafter	-

NOTE 14 – SUBSEQUENT EVENTS

On April 10, 2020, the US Department of Health and Human Services provided $130,009 to the District from funds appropriated in the Public Health and Social Services Emergency Fund for provider relief ("Relief Fund") under Division B of Public Law 116-127. By accepting the Relief Funds, the District must maintain compliance with the Secretary's terms and conditions, including but not limited to, using the Relief Funds to prevent, prepare for, and respond to coronavirus, and shall reimburse the District only for health care related expenses or lost revenues that are attributable to coronavirus. The District's commitment to full compliance with all terms and conditions is material to the Secretary's decision to disburse these funds. Non-compliance with any terms and conditions is grounds for the Secretary to recoup some or all of the payment made from the Relief Fund.

The date to which events occurring after September 30, 2019, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosure is April 28, 2020, 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,

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

	Year Ended December 31,				
	2018	2017	2016	2015	2014
Total Pension Liability					
Service Cost	$ 233,795	$ 234,947	$ 235,644	$ 187,400	$ 148,553
Interest on Total Pension Liability	287,954	263,580	230,539	205,490	183,274
Effect of Plan Changes	-	-	-	(32,147)	-
Effect of Assumption Changes or Inputs	-	19,680	-	38,730	-
Effect of Economic/Demographic (Gains) or Losses	(459)	(68,612)	(62,611)	(17,194)	(1,302)
Benefit Payments/Refunds of Contributions	(160,440)	(135,113)	(95,783)	(91,224)	(66,310)
Net Change in Total Pension Liability	360,850	314,482	307,789	291,055	264,215
Total Pension Liability, Beginning	3,399,856	3,085,374	2,777,585	2,486,530	2,222,315
Total Pension Liability, Ending	3,760,706	3,399,856	3,085,374	2,777,585	2,486,530
Fiduciary Net Position					
Employer Contributions	$ 102,102	$ 108,123	$ 118,529	$ 114,882	$ 114,839
Member Contributions	137,976	150,171	140,437	128,216	112,367
Investment Income Net of Investment Expenses	(64,801)	435,169	193,072	(8,041)	150,962
Benefit Payments/Refunds of Contributions	(160,440)	(135,113)	(95,783)	(91,224)	(66,310)
Administrative Expenses	(2,844)	(2,345)	(2,110)	(1,836)	(1,798)
Other	2,726	2,422	4,958	(1,628)	(25,559)
Net Changes in Fiduciary Net Position	14,719	558,427	359,103	140,369	284,499
Fiduciary Net Position, Beginning	3,526,087	2,967,660	2,608,557	2,468,188	2,183,687
Fiduciary Net Position, Ending	3,540,806	3,526,087	2,967,660	2,608,557	2,468,187
Net Pension Liability/(Asset), Ending	$ 219,900	$ (126,231)	$ 117,714	$ 169,028	$ 18,343
Fiduciary Net Position as a % of Total Pension Liability	94.15%	103.71%	96.18%	93.91%	99.26%
Pensionable Covered Payroll	$ 2,759,512	$ 3,003,426	$ 2,808,736	$ 2,564,329	$2,247,336
Net Pension Liability as a % of Covered Payroll	7.97%	-4.20%	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.

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

Schedule of District Contributions

Year Ending December 31,	Actuarially Determined Contribution (1)	Actual Employer Contribution (1)	Contribution Deficiency (Excess)	Pensionable Covered Payroll (2)	Actual Contribution as a % of Covered Payroll
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%
2017	108,123	108,123	-	3,003,426	3.6%
2018	102,102	102,102	-	2,759,512	3.7%

Notes to Schedule:

(1) *TCDRS calculates actuarially determined contributions on a calendar year basis. GASB Statement No. 68 indicates the employer should report employer contribution amounts on a fiscal year basis. If additional assistance is needed, please contact TCDRS.*

(2) *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	12.4 years (based on contribution rate calculated in 12/31/2018 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	2.75%
Salary Increases	Varies by age and service. 4.9% avaerage over career including inflation.
Investment rate of Return	8.00%, net of administrative and investment expenses, including inflation

Methods and assumptions used to determine contributions rates (continued):

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	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions	2015: No Changes in plan provisions were reflected in the Schedule. 2016: No changes in plan provisions were reflected in the Schedule. 2017: New Annuity Purchase Rates were relected for benefits earned after 2017. 2018: No changes in plan provisions were reflected in the Schedule.

DURBIN&CO LLP
Certified Public Accountants

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, 2019 and 2018, and have issued our report thereon dated April 28, 2020, 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 33 through 36, 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 28, 2020

CONCHO COUNTY HOSPITAL DISTRICT
NET PATIENT SERVICE REVENUE AND
OTHER OPERATING REVENUE
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
Routine Services		
Routine services	$ 457,075	$ 268,904
Ancillary and Other Services		
Inpatient:		
Radiology and nuclear medicine	31,742	48,632
Laboratory	48,200	81,793
Respiratory therapy	42,700	59,150
Physical therapy	41,756	66,705
Electrocardiology	2,291	4,693
Central supply	13,522	19,028
Pharmacy	156,448	310,009
Sleep Study	-	2,000
Emergency	61,000	71,539
Observation	8,694	23,589
Total Inpatient Ancillary Services	406,353	687,138
Outpatient:		
Radiology and nuclear medicine	1,239,887	1,207,135
Laboratory	1,125,931	1,040,553
Respiratory therapy	5,137	12,775
Electrocardiology	97,540	81,264
Central supply	33,745	29,318
Pharmacy	145,768	135,967
Sleep Study	7,500	22,900
Emergency room	2,801,395	2,810,350
Observation	386,474	544,515
Retail Pharmacy	1,729,504	1,861,599
Total Outpatient Ancillary Services	7,572,881	7,746,376
Gross Patient Revenue	$ 8,436,309	$ 8,702,418

CONCHO COUNTY HOSPITAL DISTRICT
NET PATIENT SERVICE REVENUE AND
OTHER OPERATING REVENUE (CONTINUED)
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
Gross Patient Revenue	$ 8,436,309	$ 8,702,418
Deductions from Revenue:		
Charity	(665,164)	(17,399)
Third-Party Contractual Adjustments	(655,014)	(1,928,461)
Provision for Bad Debts	(692,748)	(592,787)
Medicaid Supplemental Payments & Other Credits	599,788	471,066
Total Deductions from Revenue	(1,413,138)	(2,067,581)
Net Patient Service Revenue	$ 7,023,171	$ 6,634,837
Other Operating Revenue		
Office Rents	$ 43,584	$ 43,584
DSRIP Revenue	39,607	31,837
Miscellaneous	14,947	9,824
Total Other Operating Revenue	$ 98,138	$ 85,245

CONCHO COUNTY HOSPITAL DISTRICT
OPERATING EXPENSES
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
Routine Services	$ 1,228,084	$ 1,148,792
Ancillary Services		
Radiology and nuclear medicine	206,519	208,633
Laboratory	401,224	384,348
Respiratory therapy	996	1,497
Physical therapy	30,166	37,392
Electrocardiology	5,923	4,749
Central supply	64,692	68,055
Pharmacy	112,115	129,350
Emergency	911,803	913,196
Ambulance	75,740	72,840
Sleep Study	2,067	5,105
Retail Pharmacy	1,448,570	1,548,745
Health and Wellness	51,208	79,755
Total Ancillary Services	3,311,023	3,453,665

CONCHO COUNTY HOSPITAL DISTRICT
OPERATING EXPENSES (CONTINUED)
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2019 AND 2018

	2019	2018
General Services		
Operation and Plant	273,299	220,267
Laundry and Linen	37,469	39,021
Housekeeping	45,075	44,175
Dietary	107,003	88,695
Total General Services	462,846	392,158
Administrative Services		
Salaries	571,703	501,879
Other operating	573,682	451,696
Employee Benefits	693,550	631,441
Medical Records	65	-
Rental expense	11,524	44,502
Travel and Seminars	15,138	14,204
Insurance	34,804	31,682
Legal and Accounting Fees	59,052	71,569
Marketing	2,182	9,832
General Supplies	85,496	77,780
Computer Maintenance	121,778	119,381
Total Administrative Services	2,168,974	1,953,966
Depreciation	560,583	640,166
Total Operating Expenses	$ 7,731,510	$ 7,588,747

See Independent Accountant's Report on Other Financial Information.