CONCHO COUNTY HOSPITAL DISTRICT
EDEN, TEXAS

AS OF AND FOR THE YEARS ENDED
SEPTEMBER 30, 2018 AND 2017

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 financial statements of Concho County Hospital District, (the "District") as of and for the years ended September 30, 2018 and 2017, 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, 2018 and 2017, 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 28 through 30, 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
March 26, 2019

CONCHO COUNTY HOSPITAL DISTRICT
EDEN, TEXAS

MANAGEMENT'S DISCUSSION AND ANALYSIS

AS OF AND FOR THE YEARS ENDED
SEPTEMBER 30, 2018 AND 2017

CONCHO COUNTY HOSPITAL DISTRICT
UNAUDITED MANAGEMENT DISCUSSION AND ANALYSIS
AND FINACIAL STATEMENTS
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

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, 2018 and 2017. 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 ($438,567) or (4.10%) decrease in 2018 and a ($511,624) or (4.56%) decrease in 2017.
- The District reported operating losses in 2018 and 2017 of ($868,665) and ($1,424,717), respectively. The operating loss in 2018 had a favorable decrease of $556,052 over losses reported in 2017.
- Nonoperating revenues (expenses) decreased ($482,995) or (52.90%), in 2018, compared to 2017. In 2017, nonoperating revenues (expenses) increased $26,555 or 3.00% as compared to 2016.

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 decreased by ($438,567) or (4.10%) in 2018 and decreased by ($511,624) or (4.56%) in 2017, as you can see from **Table 1**.

Table 1: Assets, Liabilities, and Net Position

	2018	2017	2016
Assets:			
Current Assets	$ 5,774,107	$ 5,933,873	$ 6,558,860
Capital Assets (net)	5,302,863	5,871,393	5,771,199
Deferred Outflows of Resources	114,403	273,890	317,903
Net Pension Asset	126,231	-	-
Total Assets and Deferred Outflows of Resources	$ 11,317,604	$ 12,079,156	$ 12,647,962
Liabilities:			
Long-Term Debt Outstanding	$ 549,112	$ 845,360	$ 670,496
Other Current and Non-Current	353,828	466,281	745,334
Deferred Inflows of Resources	147,919	62,203	15,196
Total Liabilities and Deferred Inflows of Resources	1,050,859	1,373,844	1,431,026
Total Net Position	10,266,745	10,705,312	11,216,936
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 11,317,604	$ 12,079,156	$ 12,647,962

Total assets and deferred outflows of resources decreased by ($761,552) or (6.30%) in 2018, primarily due to the decrease in net capital assets. Total liabilities and deferred inflows of resources decreased ($322,985) or (23.51%) in 2017, primarily due to decrease in outstanding long-term debt.

OPERATING RESULTS AND CHANGES IN THE DISTRICT'S NET POSITION

The District's net position decreased by ($438,567) and decreased by ($511,624) in 2018 and 2017, 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

	2018	2017	2016
Operating Revenues:			
Net Patient Service Revenue	$ 6,634,837	$ 6,818,153	$ 7,636,756
Delivery System Reform Incentive Program	31,837	161,502	160,407
Other Operating Revenue	53,408	57,142	79,225
Total Operating Revenue	6,720,082	7,036,797	7,876,388
Operating Expenses:			
Salaries, Benefits and Payroll Taxes	3,486,496	3,830,729	3,716,940
Other Operating Expenses	3,462,085	4,023,873	4,042,549
Depreciation / Amortization	640,166	606,912	564,559
Total Operating Expenses	7,588,747	8,461,514	8,324,048
Operating Income (Loss)	(868,665)	(1,424,717)	(447,660)
Nonoperating Revenues and Expenses:			
Property Tax Revenue	726,619	727,477	697,957
Community Benefit Support	-	625,535	657,845
Intergovernmental Transfer	(333,142)	(444,130)	(466,230)
Investment Income	14,630	11,179	11,299
Interest Expense	6,371	(22,347)	(25,133)
Other	15,620	15,379	10,800
Total Nonoperating Revenues (Expenses)	430,098	913,093	886,538
Increase (Decrease) in Net Position	(438,567)	(511,624)	438,878
Net Position, Beginning of Year	10,705,312	11,216,936	10,778,058
Net Position, End of Year	$ 10,266,745	$ 10,705,312	$ 11,216,936

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 2018 and 2017 of ($868,665) and ($1,424,717), respectively.

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

- Decrease in salaries, benefits, and payroll taxes of ($344,233) or (8.99%).
- Decrease in other operating expenses of ($561,788) or (13.96%).

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%.

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, 2018 and 2017, the District had $5,302,863 and $5,871,393, 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 $71,636 and $707,106 in 2018 and 2017, respectively. Depreciation expense totaled $640,166 and $606,912 in 2018 and 2017, respectively.

Debt

At September 30, 2018 the District had long-term debt outstanding of $549,112 and $845,360, respectively, as detailed in Note 9 of the financial statements. During fiscal year 2018 and 2017, the District made payments of $296,248 and $184,037, respectively, on outstanding debt.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact, Brian Lady, Administrator/CEO at Concho County Hospital District, 614 Eaker St., Eden, TX 76837.

CONCHO COUNTY HOSPITAL DISTRICT
EDEN, TEXAS

FINANCIALS

AS OF AND FOR THE YEARS ENDED
SEPTEMBER 30, 2018 AND 2017

CONCHO COUNTY HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

SEPTEMBER 30, 2018 AND 2017

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:	2018	2017
CURRENT ASSETS		
Cash and Cash Equivalents	$ 2,097,730	$ 1,902,679
Short-Term Investments	2,330,902	2,326,129
Patient Accounts Receivable, Net of Allowance	735,275	639,868
Estimated Third-Party Payor Settlements	111,605	268,258
Other Receivables	238,155	250,706
Inventory of Supplies	235,553	187,951
Prepaid and Other Current Assets	16,881	348,932
Property Taxes Receivable	8,006	9,350
Total Current Assets	5,774,107	5,933,873
NONCURRENT ASSETS		
Land	105,513	105,513
Depreciable Capital Assets, Net	5,197,350	5,765,880
Total Noncurrent Assets	5,302,863	5,871,393
Total Assets	11,076,970	11,805,266
DEFERRED OUTFLOWS OF RESOURCES		
Difference Between Projected and Actual Earnings	-	162,476
Contributions Made Subsequent to Measurement Date	78,638	85,594
Changes In Assumption	35,765	25,820
Total Deferred Outflows of Resources	114,403	273,890
NET PENSION ASSET	126,231	-
Total Assets and Deferred Outflows of Resources	$ 11,317,604	$ 12,079,156

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

CONCHO COUNTY HOSPITAL DISTRICT

STATEMENTS OF NET POSITION

SEPTEMBER 30, 2018 AND 2017

LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION:	2018	2017
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	$ 238,613	$ 300,614
Accounts Payable	156,270	95,089
Accrued Payroll, Benefits, and Related Liabilities	184,808	211,531
Other Accrued Liabilities	12,750	41,947
Total Current Liabilities	592,441	649,181
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Portion	310,499	544,746
Net Pension Liability	-	117,714
Total Noncurrent Liabilities	310,499	662,460
Total Liabilities	902,940	1,311,641
DEFERRED INFLOWS OF RESOURCES		
Differences Between Projected and Actual Earnings	44,144	-
Differences Between Expected and Actual Experience	103,775	62,203
Total Deferred Inflows of Resources	147,919	62,203
Total Liabilities and Deferred Inflows of Resources	1,050,859	1,373,844
NET POSITION		
Net Investment in Capital Assets	4,753,751	5,026,033
Unrestricted	5,512,994	5,679,279
Total Net Position	10,266,745	10,705,312
Total Liabilities, Deferred Inflows of Resources, and Net Position	$ 11,317,604	$ 12,079,156

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, 2018 AND 2017

	2018	2017
OPERATING REVENUES:		
Net Patient Service Revenue	$ 6,634,837	$ 6,818,153
Delivery System Reform Incentive Program	31,837	161,502
Other Revenue	53,408	57,142
Total Operating Revenues	6,720,082	7,036,797
OPERATING EXPENSES:		
Salaries	2,834,768	3,162,401
Employee Benefits and Payroll Taxes	651,728	668,328
Professional Fees and Purchased Services	1,708,466	1,394,707
Supplies	1,181,189	1,968,247
Other Operating	572,430	660,919
Depreciation and Amortization	640,166	606,912
Total Operating Expenses	7,588,747	8,461,514
Operating Income (Loss)	(868,665)	(1,424,717)
NONOPERATING REVENUES (EXPENSES):		
Property Tax Revenue	726,619	727,477
Community Benefit Support	-	625,535
Intergovernmental Transfer	(333,142)	(444,130)
Investment Income	14,630	11,179
Interest Expense	6,371	(22,347)
Other Non Operating Revenue	15,620	15,379
Total Nonoperating Revenues (Expenses)	430,098	913,093
Increase (Decrease) in Net Position	(438,567)	(511,624)
Net Position, Beginning of Year	10,705,312	11,216,936
Net Position, End of Year	$ 10,266,745	$ 10,705,312

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, 2018 AND 2017

	2018	2017
CASH FLOW FROM OPERATING ACTIVITIES		
Receipts from and on Behalf of Patients	$ 6,696,083	$ 7,243,902
Other Receipts and Payments, net	68,599	187,765
Payments to Suppliers and Contractors	(3,481,595)	(3,693,256)
Payments to Employees	(3,479,963)	(3,773,140)
Net cash provided by (used by) operating activities	(196,876)	(34,729)
CASH FLOWS FROM INVESTING ACTIVITIES		
Investment Earnings	14,630	11,179
Purchase of Investments	(4,773)	(4,856)
Proceeds From Sale of Investments	-	268,334
Net Cash Provided by (Used by) Investing Activities	9,857	274,657
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Principal Payments on Long-Term Debt and Notes Payable	(271,956)	(183,637)
Interest Payments on Long-Term Debt and Notes Payable	(17,921)	(22,347)
Purchase of Capital Assets	(71,636)	(348,605)
Net Cash Used by Capital and Related Financing Activities	(361,513)	(554,589)
CASH FLOW FROM NONCAPITAL FINANCING ACTIVITIES		
Property Taxes	727,963	725,303
Payments for Intergovernmental Transfers	-	(109,783)
Other	15,620	15,379
Net Cash Provided by (Used in) Noncapital Financing Activities	743,583	630,899
Net Increase (Decrease) in Cash and Cash Equivalents	195,051	316,238
Cash and Cash Equivalents, Beginning of Year	1,902,679	1,586,441
Cash and Cash Equivalents, End of Year	$ 2,097,730	$ 1,902,679

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, 2018 AND 2017

	2018	2017
RECONCILIATION OF CASH AND EQUIVALENTS TO STATEMENTS OF NET POSITION:		
Cash and equivalents presented under the following titles:		
Cash and Cash Equivalents	$ 2,097,730	$ 1,902,679
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:		
Operating Income (Loss)	$ (868,665)	$ (1,424,717)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Flows Provided by Operating Activities:		
Provision for Bad Debt	592,787	1,630,138
Depreciation and Amortization	640,166	606,912
Community Benefit Support	-	625,535
(Increase) Decrease in:		
Accounts Receivable	(688,194)	(1,555,103)
Prepaid Expenses and Other Current Assets	(36,142)	(80,175)
Estimated Third-Party Payor Settlements	156,653	350,714
Net Pension Asset	(126,231)	-
Deferred Outflows of Resources	159,487	44,013
Increase (Decrease) in:		
Accounts Payable	61,181	(251,956)
Accrued Salaries and Benefits Payable	(26,723)	13,576
Other Accrued Liabilities	(29,197)	10,642
Net Pension Liability	(117,714)	(51,315)
Deferred Inflows of Resources	85,716	47,007
Net Cash Provided By (Used in) Operating Activities	$ (196,876)	$ (34,729)
Supplemental disclosure of noncash investing and financing activities		
New obligations under capital leases	$ -	$ 358,901

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

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

Pending Adoption of Recent Accounting

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.

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. 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. Management is curre3ntly evaluating the effect this statement will have on the financial statements and related disclosures.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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

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

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2018 and 2017. These taxes are collected by the Concho County Appraisal District and are remitted to the District when received. The District's taxes are levied and become collectible from October 1 to January 31 of the succeeding year. The taxes are based on the assessed values listed as of the prior January 1, which is the due date a lien attaches to the taxable property. Revenue from property taxes is recognized in the year in which the taxes are levied. The District provides an allowance for uncollectible taxes based on historical collection information.

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

Reclassifications – Certain reclassifications have been made to the 2017 financial statements to conform to the 2018 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:

	2018	2017
Routine Patient Services	$ 268,904	$ 392,680
Ancillary Patient Services		
Inpatient	687,138	752,146
Outpatient	7,746,376	6,972,131
Gross Patient Service Revenue	8,702,418	8,116,957
Charity	(17,399)	(123,016)
Third-Party Contractual Adjustments	(1,926,506)	67,544
Provision for Bad Debts	(592,787)	(1,630,138)
Medicaid Supplemental Payments & Other Credits	469,111	386,806
Net Patient Service Revenue	$ 6,634,837	$ 6,818,153

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, 2018 and 2017 are $111,605 and $268,258, respectively.

NOTE 2 - NET PATIENT SERVICE REVENUE (CONTINUED)

Charity Care - The value of charity care provided by the District based upon its established rates, was $17,399 and $123,016 in 2018 and 2017, 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 $16,237 and $143,266 for the years ended September 30, 2018 and 2017, 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, 2018 and 2017 were $2,330,902 and $2,326,129, 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, 2018 and 2017, the carrying amount of the District's deposits with financial institutions was $4,428,632 and $4,228,808, respectively. The bank balance at September 30, 2018 and 2017 was $4,625,198 and $4,426,439 , respectively.

	2018	2017
Amount insured by the FDIC - Demand Deposits	$ 461,954	$ 284,631
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	3,663,244	3,641,808
Total bank balance	$ 4,625,198	$ 4,426,439

NOTE 5 - PATIENT ACCOUNTS RECEIVABLE

Patient accounts receivable consist of the following at September 30:

	2018	2017
Gross Accounts Receivable	$ 2,673,684	$ 2,318,609
Less: Allowance for Bad Debts	(1,545,926)	(1,486,258)
Allowance for Contractuals	(392,483)	(192,483)
Accounts Receivable, Net of Allowance	$ 735,275	$ 639,868

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:

	2018	2017
Medicare	17%	13%
Medicaid	4%	2%
Other Third-Party Payors	8%	40%
Patients	71%	45%
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, 2018 and 2017, was $726,619 and $727,477, respectively. As of September 30, 2018 and 2017, the balance of property taxes receivable, and its related allowance for uncollectible taxes are as follows:

	2018	2017
Property Taxes Receivable	$ 52,287	$ 57,022
Less: Allowance for Uncollectible Taxes	(44,281)	(47,672)
Taxes Receivable, Net of Allowance	$ 8,006	$ 9,350

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, 2018 and 2017, the District has reported the following tax abatement agreements noted below:

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.

NOTE 7 – PROPERTY TAX ABATEMENT (CONTINUED)

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, 2018 and 2017 were as follows:

	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

NOTE 8 – CAPITAL ASSETS (CONTINUED)

	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	$ 5,771,199	$ 100,194	$ -	$ 5,871,393

Total depreciation expense for 2018 and 2017, was $640,166 and $606,912, 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 09/30/17	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

NOTE 9 – LONG-TERM DEBT (CONTINUED)

	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	$ 670,496	$ 358,901	$ (184,037)	$ 845,360	$ 300,614

The terms and due dates of the District's long-term debt, including note payable obligations, at September 30, 2018 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 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 2018 and 2017, total interest incurred was ($6,371) and $22,347, 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 September 30,	Principal	Interest
2019	238,613	(8,449)
2020	208,780	(8,843)
2021	55,071	(6,271)
2022	46,648	(1,914)
Total	$ 549,112	$ (25,477)

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 $199,932 and $185,517, and received $471,353 and $423,361 for the years ended September 30, 2018 and 2017, respectively. The District recognized net revenue of $376,983 and $245,534 for the years ended September 30, 2018 and 2017, 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 $113,251 and $7,689 for the years ended September 30, 2018 and 2017, 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 $147,683 and $471, and received $340,722 and $-0- for the years ended September 30, 2018 and 2017, respectively. Additionally, the District recorded a net receivable of approximately $-0- and $161,502 at September 30, 2018 and 2017, respectively. The District recognized net revenue of $31,837 and $161,502 for the years ended September 30, 2018 and 2017, respectively, which is included within other revenue in the statements of revenues, expenses, and changes in net position.

Indigent Care Affiliation - Under the demonstration wavier, the District is part of two indigent care affiliation agreements with the Service Organization of Concho Valley and the Service Organization of Big Country, both non-profit corporations, and affiliated hospitals. This agreement is intended to increase funding for the Medicaid population and to access federal funding for the indigent population.
Under this program, the District contributes certain governmental funds to the State of Texas. The Service Organization of Concho Valley then provides care to the Medicaid and non-Medicaid indigent in the region and surrounding communities. These services were valued at $-0- and $625,535 as of September 30, 2018 and 2017, respectively. As part of the affiliation agreement, the District provided $-0- and $109,784 in funding to the program for the year ended September 30, 2018 and 2017, respectively. The District has funded $-0- and $333,142 which has been recorded as prepaid services in the accompanying statement of net position at September 30, 2018 and 2017, respectively. This program ended in October of 2017.

NOTE 11 – MEDICAID DISPROPORTIONATE SHARE FUNDS (CONTINUED)

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 $92,128 and $141,272 for the years ended September 30, 2018 and 2017, 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, 2018 and 2017 was $46,139 and $46,043, 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.

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, 2018, the following employees were covered by the benefit terms:

	2017	2016
Inactive Employees or Beneficiaries Currently Receiving Benefits	19	16
Inactive Employees Entitled to but not Yet Receiving Benefits	32	29
Active Employees	58	55
Total	109	100

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, 2017, employees contributed approximately $150,171, or 5.0% of covered payroll, and the District contributed approximately $108,123, or 3.6% of covered payroll, to the Plan. 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.

Net Pension Asset/Liability

At September 30, 2018 and 2017, the District's net pension asset/liability was measured as of December 31, 2017 and 2016, 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, 2017 and 2016 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, 2017 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)

Net Pension Liability (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

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:

NOTE 13 – EMPLOYEE BENEFITS (CONTINUED)

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected minus Inflation)
U.S Equities	11.50%	4.55%
Private Equity	16.00%	7.55%
Global Equities	1.50%	4.85%
International Equities-Developed	11.00%	4.55%
International Equities-Emerging	8.00%	5.55%
Investment-Grade Bonds	3.00%	0.75%
Strategic Credit	8.00%	4.12%
Direct Lending	10.00%	8.06%
Distressed Debt	2.00%	6.30%
REIT Equities	2.00%	4.05%
Master Limited Partnerships (MLP's)	3.00%	6.00%
Private Real Estate Partnerships	6.00%	6.25%
Hedge Funds	18.00%	4.10%
	100%	

Discount Rate

The discount rate used to measure the total pension liability was 8.10% at December 31, 2017 and 2016. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that District contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan’s fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

NOTE 13 – EMPLOYEE BENEFITS (CONTINUED)

Discount Rate (Continued)

The following table summarizes the changes in the net pension liability as of December 31, 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)

The following table summarizes the changes in the net pension liability as of December 31, 2016, 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, 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	$ 3,085,375	$ 2,967,661	$ 117,714

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:

	2017		
	1% Decrease	Current Discount Rate	1% Increase
	7.10%	8.10%	9.10%
Total Pension Liability	$ 3,866,463	$ 3,399,857	$ 3,009,358
Fiduciary Net Position	3,526,088	3,526,088	3,526,088
Net Pension (Asset)/Liability	$ 340,375	$ (126,231)	$ (516,730)

	2016		
	1% Decrease	Current Discount Rate	1% Increase
	7.10%	8.10%	9.10%
Total Pension Liability	$ 3,497,444	$ 3,085,375	$ 2,743,089
Fiduciary Net Position	2,967,661	2,967,661	2,967,661
Net Pension (Asset)/Liability	$ 529,783	$ 117,714	$ (224,572)

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, 2018 and 2017, the District recognized pension expense of $96,180 and $142,938, respectively. At September 30, 2018 and 2017, the District reported deferred outflows of resources and deferred inflows of resources related to the TCDRS defined benefit pension plan from the following sources:

	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

	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

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:	
2018	$ (579)
2019	(7,182)
2020	(50,104)
2021	(46,134)
2022	(8,155)
Thereafter	-

NOTE 14 – SLEEP STUDIES PROGRAM

In 2015, the District began operating sleep study centers at different locations in the state of Texas. During 2017, the District terminated the contracts with the sleep study centers. For the year ended September 30, 2017, the District recorded net patient service revenues of $554,212 related to the sleep study programs. For the year ended September 30, 2017, the related expenses were $492,200.

	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	$ 9,264	$ 53,458	$ (710)

NOTE 15 – SUBSEQUENT EVENTS

The date to which events occurring after September 30, 2018, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosure is March 26, 2019, 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,			
	2017	2016	2015	2014
Total Pension Liability				
Service Cost	$ 234,946	$ 235,645	187,401	148,554
Interest on Total Pension Liability	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	(68,612)	(62,611)	(17,194)	(1,302)
Benefit Payments/Refunds of Contributions	(135,113)	(95,783)	(91,224)	(66,310)
Net Change in Total Pension Liability	314,482	307,789	291,055	264,215
Total Pension Liability, Beginning	3,085,374	2,777,585	2,486,530	2,222,315
Total Pension Liability, Ending	$ 3,399,856	3,085,374	2,777,585	2,486,530
Fiduciary Net Position				
Employer Contributions	$ 108,123	$ 118,529	114,882	114,839
Member Contributions	150,171	140,437	128,216	112,367
Investment Income Net of Investment Expenses	435,169	193,072	(8,041)	150,962
Benefit Payments/Refunds of Contributions	(135,113)	(95,783)	(91,224)	(66,310)
Administrative Expenses	(2,345)	(2,110)	(1,836)	(1,798)
Other	2,422	459	(1,628)	(25,558)
Net Changes in Fiduciary Net Position	558,428	359,104	140,369	284,500
Fiduciary Net Position, Beginning	2,967,661	2,608,557	2,468,188	2,183,687
Fiduciary Net Position, Ending	$ 3,526,088	2,967,661	2,608,557	2,468,188
Net Pension Liability/(Asset), Ending	$ (126,232)	$ 117,714	$ 169,029	$ 18,343
Fiduciary Net Position as a % of Total Pension Liability	103.71%	96.18%	93.91%	99.26%
Pensionable Covered Payroll	$ 3,003,426	$ 2,808,736	2,564,329	2,247,336
Net Pension Liability as a % of Covered Payroll	-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.

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
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%
2017	108,123	10,123	-	3,003,426	3.6%

Notes to Schedule:

(1) *TCDRS calculates actuarially determined contributions on a calendar year basis. GSB 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	9.7 years (based on contribution rate calculated in 12/31/2017 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.

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, 2018 and 2017, and have issued our report thereon dated March 26, 2019, 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 32 through 35, 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
March 26, 2019

CONCHO COUNTY HOSPITAL DISTRICT
NET PATIENT SERVICE REVENUE AND
OTHER OPERATING REVENUE
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Routine Services		
Routine services	$ 268,904	$ 392,680
Ancillary and Other Services		
Inpatient:		
Radiology and nuclear medicine	48,632	67,957
Laboratory	81,793	69,857
Respiratory therapy	59,150	62,675
Physical therapy	68,705	76,286
Electrocardiology	4,693	2,151
Central supply	19,028	80,332
Pharmacy	310,009	318,646
Emergency	71,539	74,242
Observation	23,589	-
Total Inpatient Ancillary Services	687,138	752,146
Outpatient:		
Radiology and nuclear medicine	1,207,135	703,499
Laboratory	1,040,553	799,456
Respiratory therapy	12,775	5,024
Physical therapy	22,900	1,407,881
Electrocardiology	81,264	57,022
Central supply	29,318	29,987
Pharmacy	135,967	88,639
Emergency room	2,810,350	1,646,785
Observation	544,515	419,761
Retail Pharmacy	1,861,599	1,808,610
Health and Wellness	-	5,467
Total Outpatient Ancillary Services	7,746,376	6,972,131
Gross Patient Revenue	$ 8,702,418	$ 8,116,957

CONCHO COUNTY HOSPITAL DISTRICT
NET PATIENT SERVICE REVENUE AND
OTHER OPERATING REVENUE (CONTINUED)
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Gross Patient Revenue	$ 8,702,418	$ 8,116,957
Deductions from Revenue:		
Charity	(17,399)	(123,016)
Third-Party Contractual Adjustments	(1,926,506)	67,544
Provision for Bad Debts	(592,787)	(1,630,138)
Medicaid Supplemental Payments & Other Credits	469,111	386,806
Total Deductions from Revenue	(2,067,581)	(1,298,804)
Net Patient Service Revenue	$ 6,634,837	$ 6,818,153
Other Operating Revenue		
Office Rents	$ 43,584	$ 39,952
DSRIP Revenue	31,837	161,502
Miscellaneous	9,824	17,190
Total Other Operating Revenue	$ 85,245	$ 218,644

CONCHO COUNTY HOSPITAL DISTRICT
OPERATING EXPENSES
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
Routine Services	$ 1,148,792	$ 1,249,795
Ancillary Services		
Radiology and nuclear medicine	208,633	280,181
Laboratory	384,348	361,498
Respiratory therapy	1,497	2,926
Physical therapy	42,497	570,061
Electrocardiology	4,749	4,749
Central supply	68,055	42,750
Pharmacy	129,350	114,815
Emergency	913,196	930,988
Ambulance	72,840	72,800
Retail Pharmacy	1,548,745	1,695,450
Health and Wellness	79,755	84,849
Total Ancillary Services	3,453,665	4,161,067

CONCHO COUNTY HOSPITAL DISTRICT
OPERATING EXPENSES (CONTINUED)
AS OF AND FOR THE YEARS ENDED SEPTEMBER 30, 2018 AND 2017

	2018	2017
General Services		
Operation and Plant	220,267	256,603
Laundry and Linen	39,021	37,975
Housekeeping	44,175	44,046
Dietary	88,695	111,914
Total General Services	392,158	450,538
Administrative Services		
Salaries	501,879	520,630
Other operating	451,696	442,062
Employee Benefits	631,441	639,632
Medical Records	-	6,260
Rental expense	44,502	40,910
Travel and Seminars	14,204	13,350
Insurance	31,682	37,246
Legal and Accounting Fees	71,569	78,636
Marketing	9,832	1,261
General Supplies	77,780	78,329
Computer Maintenance	119,381	134,886
Total Administrative Services	1,953,966	1,993,202
Depreciation	640,166	606,912
Total Operating Expenses	$ 7,588,747	$ 8,461,514