Financial Statements and Report of Independent Certified Public Accountants

Midland County Hospital District

September 30, 2016 and 2015

Midland County Hospital District

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Grant Thornton

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

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Audit Committee
Midland County Hospital District

Report on the financial statements

We have audited the accompanying financial statements of Midland County Hospital District (the "District") and its discretely presented component unit as of and for the years ended September 30, 2016 and 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's responsibility for the financial statements

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

Auditor's responsibility

Our responsibility is to express opinions on these financial statements based on our 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 opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the District and its discretely presented component unit as of September 30, 2016 and 2015, and the respective changes in financial position and, where applicable, cash flows thereof for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matters

Required supplementary information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 7 and the Statement of Changes in the Net Pension Liability and Related Ratios and Statement of Employer Contributions on page 55 and 56, respectively, be presented to supplement the basic financial statements. Such information, although not a required 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. This required supplementary information is the responsibility of management. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America. These limited procedures consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary information

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Divisional Statements of Net Position and Divisional Schedule of Revenues, Expenses and Changes in Net Position are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures. These additional procedures included comparing and reconciling the information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Grant Thornton LLP

Dallas, Texas
December 22, 2016

Introduction

The discussion and analysis of Midland County Hospital District's (the "District") financial performance provides an overview of the District's financial activities for the fiscal years ended September 30, 2016 and 2015. Please read this section in conjunction with the District's financial statements, starting on page 8 and the notes to the financial statements, starting on page 13.

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 statements provide information about the activities of the District, including resources held by the District but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The District is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

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 that describe the financial results of the fiscal years ended September 30, 2016 and 2015, and its financial position at September 30, 2016 and 2015. 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 statements report the District's net position and changes in it. Net position is the difference between the sum of the assets and deferred outflows of resources and the sum of the liabilities and deferred inflows of resources of the District. Over time, increases or decreases in the District's net position is one indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors such as changes in the District's patient base and measures of the quality of services it provides to the community, as well as local economic factors should also be considered when assessing the overall health of the District.

Statements of Cash Flows

This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It describes sources of cash, uses of cash and the change in the cash and cash equivalents balance during the fiscal years ended September 30, 2016 and 2015.

Financial Comparisons – Condensed Summary of Statements of Net Position ($'s in millions)

	2016	2015	2014
Cash, cash equivalents and short term investments	$ 33.9	$ 32.5	$ 54.2
Net patient accounts receivable	39.9	39.6	32.7
Other current assets	45.2	40.3	37.6
Total current assets	119.0	112.4	124.5
Capital assets, net of accumulated depreciation	236.4	244.2	248.8
Other assets	18.5	26.2	25.6
Total assets	373.9	382.8	398.9
Deferred outflows of resources	6.7	6.7	2.1
Total assets and deferred outflows of resources	$380.6	$389.5	$401.0
Accounts payable and accrued liabilities	$ 20.0	$ 24.5	$ 23.9
Current maturities of long-term debt and bonds payable	16.9	14.7	16.3
Other current liabilities	14.5	14.6	16.0
Total current liabilities	51.4	53.8	56.2
Long-term debt and other liabilities	86.4	57.5	53.5
General obligation bonds payable	99.4	101.2	104.0
Total liabilities	237.2	212.5	213.7
Deferred inflows of resources	5.1	2.2	2.3
Net position			
Net investment in capital assets	103.4	109.1	106.0
Restricted – expendable	17.5	17.8	15.3
Unrestricted	17.4	47.9	63.7
Total net position	138.3	174.8	185.0
Total liabilities, deferred inflows of resources and net position	$380.6	$389.5	$401.0

As of September 30, 2016, the District had $380.6 million in total assets and deferred outflows of resources. This is a decrease of $8.9 million and $20.4 million from 2015 and 2014 respectively. Listed below are some major factors affecting the District's financial position during these periods:

1. Qualification as a Disproportionate Share Hospital ("DSH") – the District continued to qualify for the State of Texas' Medicaid disproportionate share program based on available DSH funds, the District's adjusted specific limit, the State's Medicaid cost containment initiative, and the DSH reimbursement methodology. The District received $5.9 million in disproportionate share program funding during 2016, $6.9 million from the disproportionate share program for the state's fiscal year 2015, and $5.6 million from the disproportionate share program for the state's fiscal year 2014.

2. Texas Medicaid Waiver – In 2012, the District started receiving funds from the State of Texas' Section 1115(a) Medicaid Waiver (the "Waiver") program. The District receives payments through both the Uncompensated Care ("UC") and Delivery System Reform Incentive Payment Pool ("DSRIP") funding components of the Waiver. UC payments reimburse providers for a portion of the unpaid costs of Medicaid and uninsured patients. DSRIP payments are based on approved plans that have identified approaches, baseline data and timelines for transforming and improving indigent and Medicaid health care systems to improve the patient's experience, increase quality and better manage costs in Medicaid and indigent programs. The total revenue recognized under the Waiver was $22.8 million for 2016, $24.8 million for 2015, and $20.5 million for 2014. At September 30, 2016, the District recorded a receivable related to the Waiver in the amount of $19.6 (which is net of required intergovernmental transfer payments of $9.4 million) in other current assets. The net receivable as of September 30, 2015 and 2014 was $17.9 million and $10.9 million, respectively.

3. During 2009, the District issued $115 million in Series A and Series B general obligation bonds to fund the construction and equipping of a new nine story patient tower. All bond proceeds had been expended as of September 30, 2012. Outstanding principal of the General Obligation Bonds was $101.1 million at September 30, 2016; $103.7 million at September 30, 2015; and $106.4 million at September 30, 2014, which includes a premium of $0.1, $0.1, and $0.2, million, respectively.

4. During 2015, the District obtained a line of credit for $10 million and borrowed the full amount, as discussed in *Note 6*.

5. During 2014, the District adopted GASB 68, resulting in an increase of approximately $10 million to the District's pension liability from amounts previously reported.

6. During 2016, the District obtained a Taxable Note in the amount of $35 million to purchase an additional 25 percent beneficial interest in a net revenue sharing agreement in relationship to outpatient Diagnostic Imaging, as discussed in *Note 1*.

7. Cash, cash equivalents and short term investments increased from 2015 to 2016 by $1.4 million or 4.4% due to a change in reimbursement received from Medicare and Medicaid, along with the reallocation of restricted Tower Funds for the purchase of electronic health record system. From 2015 to 2016, total payments for services to employees and suppliers increased by $14.3 million or 6%, which is related to an increase in FTE's related to volumes and relative flat change in net supply costs.

Financial Comparisons – Condensed Summary of Revenues, Expenses and Changes in Net Position for the years ended September 30, 2016, 2015 and 2014 ($'s in millions)

	2016	2015	2014
Revenues:			
Net patient care revenues	$265.7	$264.0	$260.2
Other income	15.8	11.4	8.0
Total revenues	281.5	275.4	268.2
Expenses			
Salaries and fringe benefits	156.2	149.1	140.5
Supplies	49.6	49.8	45.3
Other	52.2	52.7	52.3
Depreciation and amortization	22.3	21.5	20.8
Total expenses	280.3	273.1	258.9
Income (loss) from operations	1.2	2.3	9.3
Other nonoperating income (expense)			
Ad valorem tax support	27.6	25.9	24.3
Interest on long-term debt	(6.7)	(6.0)	(6.1)
Other nonoperating loss	(55.6)	(21.7)	(14.1)
Investment income	0.1	0.3	0.3
Total other nonoperating (loss) income	(34.6)	(1.5)	4.4
Income (loss) before distribution to other Beneficial owners and capital grants and gifts	(33.4)	0.8	13.7
Distribution to other beneficial owners in partnership	(8.5)	(11.5)	(11.8)
Capital grants and gifts	5.1	0.5	4.3
Change in net position	$ (36.8)	$ (10.2)	$ 6.2

The District reported a loss before distribution to other beneficial owners and capital contributions of $33.4 million for the year ended September 30, 2016, a loss before distributions to other beneficial owners and capital contributions of $0.7 million for the year ended September 30, 2015, and income of $13.7 million for the year ended September 30, 2014. The District's financial performance was affected by some major changes that are summarized below:

1. Net patient care revenues increased from 2015 to 2016 by $1.7 million due to increased patient utilization and increased from 2015 to 2014 by $3.8 million due to increased patient utilization.

2. Total salaries and fringe benefits increased by 4.8% or $7.1 million from 2015 to 2016; and increased by 6.1% or $8.6 million from 2014 to 2015. This change reflects increases in FTE's during 2014 due to increased patient volumes as well as a change in early adopting GASB 68, Accounting and financial Reporting for Pensions. In addition, pension expense of approximately $2.1 million related to changes in assumptions for life expectancy was recorded during fiscal year 2015.

3. Supplies expense decreased in 2015 to 2016 by $0.3 million, or 0.6% due to changes in volume and group purchasing initiatives. Supplies expense increased in 2014 to 2015 by $4.5 million, or 9.9% due to increases in cost associated with certain pharmaceutical supplies.

4. Other non-operating loss includes the effect of the purchase of additional beneficial interest in the net revenue sharing agreement with a Radiologist practice from a 50 percent share to 75 percent share; this buy-out is related to future revenue stream activity for the diagnostic service line for $30.2 million as discuss in *Note* 1.

Capital Asset and Debt Administration

Capital assets decreased from 2016 to 2015 by $7.8 million and decreased from 2015 to 2014 by $4.6 million as shown in *Note 5* to the basic financial statements.

During 2014, the District borrowed $10 million under a revolving line of credit agreement. In September 2009, the District issued $115 million in general obligation bonds for the construction of the patient tower. In 2012, the District refinanced the Series 1997 bonds through issuance of the Series 2012 bonds as discussed further in *Note 6*. In 2016, the District borrowed $35 million for the purchase of interest in a net revenue agreement as discussed further in *Note 6*.

Economic Factors and Next Year's Outlook

The District adopted a maintenance and operating ad valorem rate of $0.10325 for 2017 that was higher than the adopted rate for fiscal year 2016 at $0.08851 per $100 valuation. The District also approved $0.031803 per $100 valuation for fiscal year 2017 to pay the principal and interest in relation to the general obligation bond (see *Note 6*). Due to increasing taxable property values, the rate increase is expected to generate additional annual revenues of $1.1 million from the revenues generated in 2016.

The District's budgeted increase in net position is $4.4 million for fiscal year 2017. This is based on the assumption that patient volumes will be sustainable with some moderate growth from those achieved in 2016. The 2017 budget includes annual rate adjustment assumptions which are expected to increase the District's net patient revenues by $3.0 million.

Contacting the District's Financial Management

This financial report is designed to provide our patients, suppliers, and creditors with a general overview of the District's finances and to show the District's accountability for the money received. Questions about this report and requests for additional financial information should be directed to the District's Administrative Office at Midland County Hospital District, 400 Rosalind Redfern Grover Parkway, Midland, TX 79701.

Midland County Hospital District

STATEMENTS OF NET POSITION

September 30, 2016 and 2015

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	2016 The District	2016 Component Unit Foundation	2015 The District	2015 Component Unit Foundation
Current assets				
Cash and cash equivalents	$ 14,985,139	$ 240,717	$ 19,524,256	$ 1,271,104
Cash designated for other capital projects	10,923,926	-	-	-
Short-term investments	7,976,576	25,728,641	12,941,990	22,970,513
Tax receivable	660,903	-	533,982	-
Patient accounts receivable, less allowance for doubtful accounts of $22,609,193 in 2016 and $29,833,255 in 2015	39,879,776	-	39,591,271	-
Inventories	8,436,697	-	8,232,871	-
Prepaid expenses	2,997,611	-	2,130,592	-
Other receivables	8,504,051	27,049	8,359,359	1,222,324
Amounts due from Medicare and Medicaid	19,534,361	-	17,652,397	-
Self-funded insurance funds, current	1,129,818	-	1,167,836	-
Investments designated for bond indenture	3,973,188	-	2,432,054	-
Total current assets	119,002,046	25,996,407	112,566,608	25,463,941
Noncurrent cash and investments				
Restricted tower funds	-	-	12,907,215	-
Restricted under debt agreement	2,460,314	-	2,456,604	-
Self-funded insurance funds	1,052,198	-	1,014,178	-
Donor restricted funds	-	12,548,101	-	14,472,941
Total investments limited as to use	3,512,512	12,548,101	16,377,997	14,472,941
Capital assets, net of accumulated depreciation	236,396,289	168,162	244,203,468	147,788
Other assets				
Goodwill and intangible assets, net of accumulated amortization of $3,010,002 in 2016 and $2,768,755 in 2015	3,570,867	-	3,778,865	-
Other	11,420,810	-	5,978,739	-
Total other assets	14,991,677	-	9,757,604	-
Total assets	373,902,524	38,712,670	382,905,677	40,084,670
Deferred outflows of resources	6,669,916	-	6,742,877	-
Total assets and deferred outflows of resources	$380,572,440	$38,712,670	$389,648,554	$ 40,084,670

Midland County Hospital District

STATEMENTS OF NET POSITION - CONTINUED

September 30, 2016 and 2015

LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	2016 The District	2016 Component Unit Foundation	2015 The District	2015 Component Unit Foundation
Current liabilities				
Accounts payable and accrued liabilities	$ 19,952,594	$ 267,931	$ 24,533,739	$ 544,269
Accrued interest payable	2,007,838	-	1,761,880	-
Accrued payroll	9,787,407	-	10,756,521	-
Accrued self-insurance liabilities	2,718,167	-	2,066,032	-
Current maturities of general obligation bonds payable	1,727,750	-	2,605,000	-
Current maturities of long-term debt	15,241,677	-	12,091,441	-
Total current liabilities	51,435,433	267,931	53,814,613	544,269
Payable for pension obligation	26,346,100	-	27,909,512	-
Interest rate swap	1,237,011	-	1,509,889	-
Long-term debt and other liabilities	58,868,387	-	28,037,776	-
General obligation bonds payable	99,406,458	-	101,185,970	-
Total liabilities	237,293,389	267,931	212,457,760	544,269
Deferred inflows of resources	5,085,261	-	2,230,051	-
NET POSITION				
Net investment in capital assets	103,396,944	168,162	109,251,612	147,788
Restricted - expendable for capital assets	10,923,926	6,978,329	12,907,215	4,862,342
Restricted - expendable for debt service	6,433,502	-	4,888,659	-
Restricted - nonexpendable	-	33,337,276	-	34,571,038
Unrestricted	17,439,418	(2,039,028)	47,913,257	(40,767)
Total net position	138,193,790	38,444,739	174,960,743	39,540,401
Total liabilities, deferred inflows of resources and net position	$380,572,440	$38,712,670	$389,648,554	$40,084,670

Midland County Hospital District

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

Years ended September 30, 2016 and 2015

	2016		2015	
	The District	Component Unit Foundation	The District	Component Unit Foundation
Revenues				
Net patient care revenues	$265,762,211	$ -	$264,049,797	$ -
Other income	15,753,404	934,323	11,430,004	1,544,903
Total revenues	281,515,615	934,323	275,479,801	1,544,903
Expenses				
Salaries and fringe benefits	156,177,171	-	149,046,463	-
Supplies	49,558,481	-	49,833,379	-
Other	52,194,611	3,834,164	52,717,282	2,275,799
Depreciation and amortization	22,360,904	-	21,535,408	-
Total expenses	280,291,167	3,834,164	273,132,532	2,275,799
Income (loss) from operations	1,224,448	(2,899,841)	2,347,269	(730,896)
Other nonoperating income (expense)				
Ad valorem tax support	27,590,399	-	25,890,764	-
Investment income gain (loss)	141,374	1,804,179	257,727	(1,444,303)
Other nonoperating loss	(30,106,314)	-	(3,647,414)	-
Contributions to government programs	(25,481,122)	-	(17,908,008)	-
Interest on long-term debt	(6,722,575)	-	(5,983,672)	-
Total other nonoperating income (expense)	(34,578,238)	1,804,179	(1,390,603)	(1,444,303)
Income (loss) before distribution to other beneficial owners of partnership and capital grants and gifts	(33,353,790)	(1,095,662)	956,666	(2,175,199)
Distributions to other beneficial owners of partnership	(8,548,050)	-	(11,527,218)	-
Capital grants and gifts	5,134,887	-	478,580	-
Change in net position	(36,766,953)	(1,095,662)	(10,091,972)	(2,175,199)
Net position – beginning of year	174,960,743	39,540,401	185,052,715	41,715,600
Net position – end of year	$138,193,790	$ 38,444,739	$174,960,743	$39,540,401

Midland County Hospital District

STATEMENTS OF CASH FLOWS

Years ended September 30, 2016 and 2015

	2016	2015
Cash flows from operating activities		
Cash received for patient care	$ 263,591,742	$ 258,342,663
Cash received from others	15,608,712	6,610,811
Cash payments to suppliers for goods and services	(107,405,082)	(101,575,105)
Cash payments to employees for services	(157,426,098)	(148,969,656)
Net cash provided by operating activities	14,369,274	14,408,713
Cash flows from noncapital financing activities		
Ad valorem tax support	20,062,814	19,044,116
Contributions to government programs	(25,481,122)	(17,908,008)
Net cash (used in) provided by noncapital financial activities	(5,418,308)	1,136,108
Cash flows from capital and related financing activities		
Ad valorem tax support related to general obligation bonds	7,293,323	6,826,632
Proceeds from issuance of long-term debt	48,508,000	2,500,000
Principal payments on general obligation bonds	(2,605,000)	(2,475,000)
Principal payments on long-term debt obligations	(14,693,879)	(6,443,632)
Interest paid on long-term debt obligations	(2,044,346)	(1,509,521)
Interest paid on general obligation funds	(4,432,271)	(4,560,557)
Proceeds from future revenue distributions	1,105,000	-
Purchases of capital assets	(14,348,727)	(16,397,253)
Contributions for capital purchases	5,134,887	478,580
Net cash provided by (used in) capital and related financing activities	23,919,987	(21,580,751)
Cash flows from investing activities		
Interest income	141,372	257,727
Purchase of investments in joint ventures	(35,508,000)	-
Other investing activity, net	(43,385)	(4,429,696)
Distributions to other beneficial owners	(8,545,050)	(11,527,218)
Sale of investments	4,965,414	24,878,969
Purchase of investments	(400,000)	(15,129,853)
Net cash used in investing activities	(39,389,649)	(5,950,071)
Net decrease in cash and cash equivalents	(6,518,696)	(11,986,001)
Cash and cash equivalents, beginning of year	34,888,075	46,874,076
Cash and cash equivalents, end of year	$ 28,369,379	$ 34,888,075

Midland County Hospital District

STATEMENTS OF CASH FLOWS

Years ended September 30, 2016 and 2015

	2016	2015
Reconciliation of cash and cash equivalents to statements of net position:		
Cash and cash equivalents	$14,985,139	$19,524,256
Restricted under debt agreement	2,460,314	2,456,604
Cash designated for other capital projects	10,923,926	-
Restricted tower funds	-	12,907,215
Cash and cash equivalents	$28,369,379	$34,888,075
Reconciliation of operating income to net cash provided by operating activities		
Operating income	$ 1,224,448	$ 2,347,269
Depreciation and amortization	22,360,904	21,535,408
Changes in operating assets and liabilities		
Net patient accounts receivable	(288,505)	(6,882,990)
Inventories	(203,826)	163,264
Prepaid expenses	(867,019)	453,838
Other receivables	(144,692)	(4,819,193)
Amounts due from/to Medicare and Medicaid	(1,881,964)	1,175,856
Accrued self-insurance liabilities	652,135	228,368
Accrued payroll	(969,114)	(1,545,429)
Accounts payable and accrued liabilities	(4,581,145)	358,454
Payable for pension	(1,563,412)	6,302,222
Deferred outflows of resources	(199,917)	(4,920,002)
Deferred inflows of resources	831,381	11,648
Net cash provided by operating activities	$14,369,274	$14,408,713
Supplemental disclosure of noncash financing and investment activities		
Amortization of bond premiums and discounts	$ (51,762)	$ (87,857)
Capital assets in accounts and retainage payable	$ 289,930	$ 304,400

NOTE 1 - NATURE OF OPERATIONS AND REPORTING ENTITY

The Midland County Hospital District (the "District") is a political subdivision of the state of Texas and is also tax-exempt under Section 501(c)(3) of the Internal Revenue Code. It was formed for the purpose of establishing a hospital or a hospital system to furnish hospital and medical care to the residents of Midland County. Residents of Midland County elect the board of directors, which has the authority to levy ad valorem taxes on property located within Midland County. The District has two divisions: a healthcare operations division (the "Hospital") and an ad valorem tax administration division which administers all receipts and disbursements related to the ad valorem taxes.

The accompanying financial statements present the District and its component units, entities for which the District is considered to be financially accountable. Blended component units are, in substance, part of the primary government's operations, even though they are legally separate entities. Thus, blended units are appropriately presented as funds of the primary government. Discretely presented component units are reported in a separate column in the financial statements to emphasize that they are legally separate from the government.

Unless otherwise noted, the following notes do not include the discretely presented component units.

Blended Component Units. Midland Memorial, Inc. ("MMI") is a corporation established as a Texas Nonprofit Corporation. The District is the sole corporate member of MMI, which is included as a blended component unit in the accompanying financial statements. Financial activity of MMI consists solely of ownership of shares in joint ventures and related income. Separate financial statements are not issued for MMI.

Midland Memorial Healthcare System ("MMHS") is a nonprofit corporation and is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. MMHS shares the same board of directors as the District and is included as a blended component unit in the accompanying financial statements. Financial activity of MMHS consists solely of ownership of shares in joint ventures. Separate financial statements are not issued for MMHS.

Premier Family Care ("PFC") is a Texas nonprofit corporation established under the Texas Medical Practice Act. PFC was organized February 1, 1996 to provide patient health care services to the public and provide a path for recruiting and employing physicians to fill the needs of the community. The District is the sole member of PFC, which is included as a blended component unit in the accompanying financial statements.

Permian Cardiology, Inc. ("PCI") is a Texas nonprofit corporation established under the Texas Medical Practice Act. PCI was organized May 19, 2012 to provide patient health care services to the public and engage in the instruction of the general public in the area of medical science, public health and hygiene and related instruction useful to the individual and beneficial to the community. The District is the sole member of PCI, which is included as a blended component unit in the accompanying financial statements.

NOTE 1 - NATURE OF OPERATIONS AND REPORTING ENTITY - Continued

Midland, Texas Orthopedic Group, Inc. ("MTOG") is a Texas nonprofit corporation established under the Texas Medical Practice Act. MTOG was organized November 22, 2013 to provide patient health care services to the public and engage in the instruction of the general public in the area of medical science, public health and hygiene and related instruction useful to the individual and beneficial to the community. The District is the sole member of MTOG, which is included as a blended component unit in the accompanying financial statements.

MMH Physicians d/b/a Midland Inpatient Medical Associate. ("MIMA") is a Texas nonprofit corporation established under the Texas Medical Practice Act. MIMA was organized September 9, 2013 to provide patient health care services to the public and engage in the instruction of the general public in the area of medical science, public health and hygiene and related instruction useful to the individual and beneficial to the community. The District is the sole member of MIMA, which is included as a blended component unit in the accompanying financial statements.

Separate financial statements are not issued for PFC, PCI, MTOG and MIMA are collectively referred to as the "501(a) entities."

Discretely Presented Component Unit. Midland Memorial Foundation (the "Foundation") is a legally separate, tax-exempt 501(c)(3) entity. The Foundation acts primarily as a fund-raising organization to supplement the resources that are available to the District in support of its programs. The 28-member board of the Foundation is self-perpetuating. Although the District does not control the timing or amount of receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted to the activities of the District by the donors. Because these restricted resources held by the Foundation can only be used by, or for the benefit of, the District, the Foundation is included as a discretely presented component unit in the District's financial statements.

The Foundation distributed $1,729,504 and $279,366 to the District for the years ending September 30, 2016 and 2015, respectively, for both restricted and unrestricted purposes. Separate financial statements for the Foundation can be obtained from the Administrative Office at 400 Rosalind Redfern Grover Parkway, Midland, TX 79701.

NOTE 1 - NATURE OF OPERATIONS AND REPORTING ENTITY - Continued

Joint Ventures. The District has entered into a number of joint ventures that are generally reported as equity investments.

In 2010, the District joined with other healthcare organization investors to form Texas Healthcare Linen, LLC ("THL"). The District is a 33% investor in THL, and the District contracts with THL for most linen services which amounted to approximately $1.1 and $1.2 million for 2016 and 2015, respectively. In 2012, the District joined with another healthcare organization to form the Midland Memorial/USP Surgery Centers, LLC ("MMUSC") as a 50.1% investor. The MMUSC was formed to purchase a 51% interest in the Midland Texas Surgical Center, LLC resulting in a net interest of 25.6%. The District appoints two of the four voting members of MMUSC.

In 2012, the District entered an agreement to purchase a 1% limited membership interest in SHA, LLC which owns and operates a health maintenance organization. The membership interest was terminated in August 2013 and an estimated settlement payable of approximately $0 and $176,000 is reported in accounts payable at September 30, 2016 and 2015, respectively.

In 2014, the District joined with other healthcare organization investors to form ContinueCare Hospital of Midland, Inc. ("CCH"). The District is entitled to an 80% share of the profits and losses in CCH, and the District has agreements with CCH for leasing of facility space as well as ancillary services. The revenue reported under these contracts amounted to approximately $1.5 and $1.9 million for 2016 and 2015, respectively and unpaid amounts under these contracts as of September 30, 2016 and 2015 amounted to approximately $3.7 and $2.3 million, respectively. Additionally, the District entered into a line of credit agreement with CCH to fund cash flow shortfalls up to $2.5 million during the initial operating period at an interest rate of 3.25% with interest only due monthly through January 2016 followed by equal payments of principal and interest monthly through January 2019. The outstanding balance is $2.7 and $2.6 million as of September 30, 2016 and 2015, respectively.

In July 2016 Midland Memorial, Inc. received a capital contribution from HealthSouth Rehabilitation Hospital of Midland/Odessa, LLC ("HealthSouth") with a fair value in the amount of $2,941,200 in exchange for a covenant not to compete for a term of 15 years, with an option to automatically renew with terms of five years. Along with the capital contribution, Midland Memorial, Inc. is entitled to 22% of HealthSouth's operating gains and losses. As of September 30, 2016, the District has recorded an asset in the amount of $3,202,876 which includes investment activity for FY2016 of $261,676 which is reported in the Statement of Revenues, Expenses and Changes in Net Position. Separate financial statements are not issued for the joint ventures.

NOTE 1 - NATURE OF OPERATIONS AND REPORTING ENTITY - Continued

The District has certain agreements to distribute net revenues, as defined, of its outpatient diagnostic imaging services and occupational therapy practice to various investors. Under these arrangements, the District receives an initial payment in exchange for payment of future revenues derived from the assets to the investors. The ownership percentages of the District by service are shown below:

	2016	2015
MRI	75%	50%
Diagnostic Imaging	75%	50%
Mammography	75%	50%
Cardiology	75%	50%
Occupational Therapy	50%	50%

During fiscal years ended September 30, 2016 and 2015, the District distributed $8,548,050 and $11,527,218, respectively, in residual amounts to beneficial owners. During 2016, the District purchased the additional net interest of 25% in certain businesses which allows for additional distributable income to be maintained for the District. The total purchase price of this additional interest was $30,185,135, which is reflected in other non-operating income (loss) in the Statements of Revenues, Expenses, and Changes in Net Position.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally property taxes and federal and state grants) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific (such as property taxes or state appropriations), investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The District first applies restricted resources when an expense or outlay is incurred for purposes for which both restricted and unrestricted resources are available.

Cash and Cash Equivalents

Cash equivalents are liquid investments with original maturities less than three months and consist primarily of certificates of deposit. The District maintains cash balances in financial institutions which, at times, may exceed federally insured limits. The District has not experienced losses on these accounts.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - Continued

Investments and Investment Income

Investments are reported at fair value. Fair value is determined using quoted market prices. Investment income or loss, including realized and unrealized gains and losses on investments, are included as investment income.

Inventories

Inventories are stated at the lower of cost (determined on average cost basis) or market.

Capital Assets

Capital assets are stated at cost on the date of purchase or at fair market value on the date of donation if acquired by gift. Expenditures for capital assets and equipment and those that substantially increase the useful life of existing capital assets are capitalized. Ordinary maintenance and repairs are charged to expense when incurred. Upon disposition, the assets and related accumulated depreciation are removed from the accounts and the resulting gain or loss is included in non-operating revenues or expenses.

Depreciation and amortization of capital assets, including assets under capital leases, is provided on a straight-line basis over the estimated useful lives of the facilities and equipment, ranging from 3 to 40 years. Assets under capital leases are depreciated over the shorter of the lease term or their respective estimated useful lives.

The District capitalizes interest costs as a component of construction in progress, based on interest costs of borrowing specifically for projects, net of interest earned on investments acquired with the proceeds of the borrowing. The District has not capitalized interest in either period being presented.

Total interest cost incurred is:

	2016	2015
Interest cost charged to expense	$6,722,575	$5,983,672
Total interests costs incurred	$6,722,575	$5,983,672

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - Continued

Goodwill

Goodwill represents the excess of the purchase price of net tangible and intangible assets acquired in business combinations over their estimated fair value. Goodwill is amortized over 40 years using the straight-line method. Amortization expense was approximately $208,000 for the years ended September 30, 2016 and 2015. Amortization expense for each of the next five years will be:

Year ended September 30:	
2017	$ 207,998
2018	186,048
2019	155,318
2020	155,318
2021	155,318
Thereafter	2,710,867

Goodwill related to the purchase of Midland Imaging Center is reported on the Statements of Net Position under Deferred Outflows of Resources in the amount of $2,515,000, net of accumulated goodwill amortization of $167,668 and is being amortized using the straight-line method for ten years. Goodwill that is related to the non-compete covenant of $10,000 is reflected in Deferred Outflows of Resources on the Statements of Net Position net of accumulated amortization of $1,333 and is being amortized over five years. Amortization expense for each of the next five years will be:

Year ended September 30:	
2017	$ 253,500
2018	253,500
2019	253,500
2020	253,500
2021	252,167
Thereafter	1,089,833

Net Position

Net position of the District is classified as four components. Net investment in capital assets consist of capital assets net of accumulated depreciation and reduced by the current balance of any outstanding borrowings used to finance the purchase or construction of those assets. Restricted expendable net position includes amounts deposited with trustees as required by revenue bond indentures and cash and investments restricted for capital asset purchases. Restricted nonexpendable net position would include any undistributed amounts attributable to beneficial owners in a partnership. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted net position.

The Foundation's net position and its revenue, expenses, gains and losses are classified within the statements based on the existence or absence of donor-imposed restrictions as restricted or unrestricted. Restricted net position is classified as expendable and nonexpendable based on the nature of donor imposed restrictions.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - Continued

Expendable net position is generally restricted for capital equipment and educational services. Nonexpendable net position must be held in perpetuity, the income from which may be used for various activities as directed by the donors.

Patient Accounts Receivable

The District reports its patient accounts receivable for services rendered at net realizable amounts due from third-party payers, patients, and others. The District provides an allowance for doubtful accounts based upon a review of outstanding receivables, historical collection information, and existing economic conditions. As a service to the patient, the District bills third-party payers directly and bills the patient when the patient's liability is determined. Patient accounts receivable are due in full when billed. Accounts are considered delinquent and subsequently written off as bad debts based on individual credit evaluation and specific circumstances of the account.

Ad Valorem Taxes

Property taxes are levied by the District on October 1 of each year based on the preceding January 1 assessed property values. To secure payment, an enforceable lien attaches to the property on January 1, when the value is assessed. Property taxes become due and payable when levied on October 1. This is the date on which an enforceable legal claim arises and the District records a receivable for the property tax assessment, less an allowance for uncollectible taxes. Property taxes are considered delinquent after January 31 of the following year.

Ad valorem taxes were assessed in fiscal years 2016 and 2015 on 100% of appraised property value at the rate of $0.11984 and $0.1183 per $100 valuation, respectively. Approximately 26% of the assessed taxes were used for debt service obligations and the remaining 74% were used for operations for the years ended September 30, 2016 and 2015, respectively. The District's board has designated that all tax receipts for operations are to be used for providing capital acquisitions. The debt service obligations that are the basis for the approved tax rate include payments in the subsequent fiscal period; therefore, the portion of the debt service tax revenue that relates to the following year is deferred.

Net Patient Care Revenues

Net patient care revenues on the accompanying statements of revenues and expenses are stated net of contractual allowance and bad debt adjustments. Contractual allowance adjustments for the years ended September 30, 2016 and 2015 totaled $592,363,714 and $544,534,568, respectively. The provision for bad debt totaled $57,261,561 and $63,719,332 in 2016 and 2015, respectively. Patient accounts receivable on the accompanying statements of net position are also stated net of contractual allowance adjustments of $80,564,709 and $65,477,380 in 2016 and 2015, respectively.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - Continued

The District's contractual adjustments were derived primarily from patients participating in the Medicare and traditional and managed care Medicaid programs. Approximately 31% and 32% of net patient care revenue for September 30, 2016 and 2015 relates to these patients, respectively. Payments for inpatient Medicare and Medicaid beneficiaries are primarily based on prospectively determined rates associated with the classification of patients into diagnosis-related groups ("DRGs"). Services rendered to outpatient Medicare beneficiaries are reimbursed based on ambulatory payment classifications ("APCs"). Services rendered to outpatient Medicaid beneficiaries are primarily reimbursed under a cost reimbursement methodology if enrolled in the traditional Medicaid program, or under a fee schedule arrangement if enrolled in a Medicaid managed care product.

The final settlement of amounts to be received from the Medicare and Medicaid programs is subject to final determination by the respective programs. The difference between the final determination and estimated amounts accrued is accounted for as an adjustment to patient care revenue in the year of final determination. The favorable effect of such adjustments increased net patient care revenue by approximately $0.1 million and $1.4 million for the years ended September 30, 2016 and 2015, respectively. The District's Medicare cost reports have been settled by the Medicare administrative contractor through September 30, 2012. The District's Medicaid cost reports have been audited by the Medicaid administrative contractor through September 30, 2011.

The District must comply with various reporting and operating regulations mandated by each of the federal and state programs. Laws and regulations governing the Medicare and Medicaid programs are 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 future. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. The District believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing.

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

The District qualifies for the State of Texas' Medicaid Disproportionate Share ("DSH") program based on available DSH funds, the District's adjusted specific limit, the State's Medicaid cost containment initiative, and the DSH reimbursement methodology. The District received approximately $5.9 million and $6.9 million from the disproportionate share program during the years ended September 30, 2016 and 2015, respectively and is recorded in the Statement of Revenues, Expenses and Change in Net Positions within net patient care revenues.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - Continued

In 2012, the state of Texas implemented a Section 1115(a) Medicaid Waiver program. Under this Waiver, hospitals are paid supplemental funds for uncompensated care ("UC") costs and delivery system improvement projects ("DSRIP"). Payments are based on approved uncompensated costs and DSRIP projects, and payments are generated by intergovernmental transfer payments ("IGT") that the District makes to the state of Texas Regional Healthcare Partnership 14 ("RHP") was formed in May 2012 and consists of fourteen counties, with an anchoring entity to help coordinate RHP activities. Payments are based on approved plans that have identified approaches, baseline data and timelines for transforming and improving indigent and Medicaid health care systems to improve the clients experience, increase quality and better manage costs in Medicaid and indigent programs. The total revenues reported for the years ended September 30, 2016 and 2015 under these programs was approximately $22.8 million and $24.8 million, respectively. The District recorded a receivable of $19.6 million, net of required IGT funding of $9.4 million, and a receivable of $17.9 million, net of required IGT funding of $12.3 million for the years ended September 30, 2016 and 2015, respectively, under these programs.

During fiscal year 2005, the District signed an indigent care affiliation agreement with Ector County Hospital District (ECHD) and Odessa Regional Medical Center. This agreement was intended to increase funding for the Medicaid population and to access federal funding for the indigent population in Ector and Midland Counties. A needs assessment was performed to identify options to increase access to care in the most cost efficient environment and to ensure an adequate health care delivery system to meet the needs of the Medicaid and non-Medicaid indigent in Ector and Midland Counties. Odessa Regional Medical Center formed two non-profit corporations to provide care to the Medicaid and non-Medicaid indigent in Ector and Midland Counties. Some of this care was previously provided by the District and ECHD. As part of the affiliation agreement, the District provided $25,481,122 and $17,908,008 in funding to Odessa Regional Medical Center for the years ended September 30, 2016 and 2015, respectively.

Foundation Contributions

Contributions are recognized as revenue in the period in which the Foundation receives an unconditional promise to give. Contributions received with donor stipulations that limit the use of the donated assets are initially recorded as restricted support. When the donor imposed restriction has been satisfied, restricted net position is reclassified to unrestricted net position and reported in the statement of revenues, expenses and changes in net position as net position released from restrictions. Contributions received having donor-imposed restrictions that will be satisfied within twelve months from the date of donation are considered to be unrestricted.

Indigent Care

The District's healthcare operational division provides care to patients who lack financial resources without charge or at amounts less than its established rates to patients meeting certain criteria under its indigent care policy. These individuals may qualify for three different types of indigent care coverage. The first coverage is based on the patient's income compared to the poverty guidelines and their residency in the county. The second coverage is based on the patient's income compared to the poverty guidelines without respect to their residency. The third coverage compares the patient's income to the outstanding balance. The charges related to this care totaled $15,015,393 and $15,581,741 for the years ended September 30, 2016 and 2015, respectively.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - Continued

Because the District does not pursue collection of amounts determined to qualify as indigent care, these amounts are not reported as net patient care revenue. The costs of indigent care provided under the District's charity care policy were $4,707,243 and $4,935,574 for the years ended September 30, 2016 and 2015, respectively. The cost of charity care is estimated by applying the District's overall ratio of cost to gross charges to the gross indigent charges forgiven.

Compensated Absences

The District's employees earn vacation days at varying rates depending on years of service. Vacation time can be carried forward up to one year past the year in which it was accrued. Employees also earn sick leave benefits depending on full-time or part-time status. Employees may accumulate extended sick leave up to a maximum of 520 hours. Accumulated vacation is bought back at one hundred percent by the District upon termination of the employee with proper notice; however, accumulated sick leave is not bought back by the District. Accumulated sick leave is carried forward at a maximum of 520 hours until it is consumed by the employee or until an employee's termination. The District has recorded a liability for compensated absences of $3,827,891 and $4,854,445 at September 30, 2016 and 2015, respectively, and these amounts are included in accrued payroll in the accompanying statements of net position.

Use of Estimates

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

Statements of Revenues, Expenses and Changes in Net Position

The District's statements of revenues, expenses and changes in net position distinguish between operating and non-operating revenues and expenses. Revenues, expenses, gains, losses, assets, liabilities and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions (principally property taxes) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses result from exchange transactions associated with providing health care services—the District's principal activity. Non-exchange revenues, including taxes, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

NOTE 2 - 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 disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from employee dishonesty, fiduciary liability, and property. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

The District is self-insured for a portion of its exposure to risk of loss from medical malpractice, general and automotive liability, workers compensation and employee health claims. Annual estimated provisions are accrued for the self-insured portion of these risks and includes an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Income Taxes

As an essential government function, the District is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the District is subject to federal income tax on any unrelated business taxable income. The 501(a) entities and MMI are subject to federal income taxes and related filing requirements for corporations. Additionally, the Foundation and MMHS have been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. These entities are subject to federal income tax on any unrelated business taxable income.

Pensions

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the District's defined benefit pension plan (the Plan) and additions to or deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Outflows/Inflows of Resources

In addition to assets, the statements of financial position report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflow of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expenses) until then. The District has reported pension related items, goodwill, and interest rate swap fair value as a deferred inflow of resources. See *Note 3* for additional disclosure.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES - Continued

In addition to liabilities, the statements of financial positions report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represent an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The District has reported the deferred charges for property taxes with time restrictions, pension related items, and other outflows of resources. See *Note 3* for additional disclosure.

Recent Accounting Pronouncements

GASB Statement No. 72 – *Fair Value Measurement and Application*. The statement provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The statement requires donated capital assets be measured at acquisition value versus the previous requirement of measurement at fair value. The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2015. All applicable provisions have been included in the District's financial statements as of September 30, 2016. This provision had no impact on the financial statements or related disclosures.

GASB Statement No. 79 – Certain External Investment Pools and Pool Participants. This statement establishes specific financial reporting criteria used to determine whether a qualifying external investment pool may elect to use an amortized cost exception to fair value measurement. The statement also establishes additional note disclosure for qualifying external investment pools. The requirements of this statement are effective for financial statements for reporting periods beginning after June 15, 2015. All applicable provisions have been included in the District's financial statements as of September 30, 2016. This provision had no impact on the financial statements or related disclosures.

GASB Statement No. 80 – *Blending Requirements for Certain Component Units*. This statement adds a new criterion for presenting component units as blended in a government's financial statements. If the government is the sole corporate member of a not-for-profit corporation component, then the component unit should be blended. GASB 80 does not change the criteria for an entity being a component unit or the presentation of a blended component unit. The Statement is the result of practice issues raised, particularly in the health care industry, after implementation of GASB Statement No. 61, *The Financial Reporting Entity: Omnibus*. The requirements of GASB 80 are effective for reporting periods beginning after June 15, 2016. The District is currently evaluating the impact of this standard on its financial statements and related footnote disclosures.

NOTE 3 - ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE, AND DEFERRED OUTFLOWS AND INFLOW OF RESOURCES

The District grants credit without collateral to its patients, many of whom are area residents and are uninsured under third-party payer agreements.

	2016	2015
Patient accounts receivable		
Receivable from patients and their insurance	$ 53,465,878	$ 62,346,893
Receivable from Medicare	6,156,413	6,447,923
Receivable from Medicaid	2,866,678	629,710
Total patient accounts receivable	62,488,969	69,424,526
Less allowance for doubtful accounts	(22,609,193)	(29,833,255)
Patient accounts receivable	$ 39,879,776	$ 39,591,271

Accounts payable and accrued liabilities at September 30, consisted of:

	2016	2015
Accounts payable and accrued liabilities		
Accounts payable	$12,373,682	$14,159,779
Payable for purchased services	2,185,615	3,204,924
Payable for refunds due on patient accounts receivable	2,242,955	4,258,270
Unclaimed property	346,764	260,547
Payable for supplies	595,334	142,885
Payable for capital assets	289,930	304,400
Other	1,918,314	2,202,934
Total accounts payable and accrued liabilities	$19,952,594	$24,533,739

Deferred inflows of resources at September 30, consisted of:

	2016	2015
Property taxes under time restrictions	$3,160,528	$2,218,403
Pension related	819,733	11,648
Other	1,105,000	-
Total deferred inflows of resources	$5,085,261	$2,230,051

NOTE 3 - ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE, AND DEFERRED OUTFLOWS AND INFLOW OF RESOURCES - Continued

Deferred outflows of resources at September 30, consisted of:

	2016	2015
Accumulated decrease in fair value of interest rate swap	$1,237,011	$1,509,889
Pension related	3,076,905	5,232,988
Goodwill (net of accumulated amortization of $169,000 September 30, 2016)	2,356,000	-
Total deferred outflows of resources	$6,669,916	$6,742,877

NOTE 4 - LEASE OBLIGATION

During 2007, the District sold its rehabilitation hospital building to FGG Midland Rehab Hospital, LLC. As a part of the sale agreement to FGG, the District entered into a sublease agreement with Allegiance Health Center of Midland. The District agreed to guarantee the lease payment if Allegiance Health Center defaulted on the sublease for any reason. During 2013, Allegiance exited the sublease agreement and settled the remaining outstanding debt with the District. The District remains responsible for the annual lease payments of $974,016 per year through June 30, 2018.

NOTE 5 - CAPITAL ASSETS

Capital assets and related accumulated depreciation as of September 30 were as follows:

		2016			
	Depreciable Life	Beginning balance	Additions	Retirements and transfers	Ending balance
Nondepreciable assets					
Land		$ 7,936,484	$ -	$ -	$ 7,936,484
Construction in-progress		5,021,469	4,061,027	(2,488,375)	6,594,121
Total nondepreciable assets		12,957,953	4,061,027	(2,488,375)	14,530,605
Depreciable assets					
Land improvements	5-10 years	2,462,883	-	-	2,462,883
Buildings	10-40 years	259,911,340	2,280,000	-	262,191,340
Furniture, fixtures and equipment	3-20 years	207,160,164	7,558,733	(3,691,928)	211,026,969
Total depreciable assets		469,534,387	9,838,733	(3,691,928)	475,681,192
Less accumulated depreciation					
Land improvements		(1,021,585)	(24,548)	-	(1,046,133)
Buildings		(92,393,119)	(9,166,527)	-	(101,559,646)
Furniture, fixtures and equipment		(144,874,168)	(12,254,004)	5,918,443	(151,209,729)
Total accumulated depreciation		(238,288,872)	(21,445,079)	5,918,443	(253,815,508)
Depreciable assets, net		231,245,515	(11,606,346)	2,226,515	221,865,684
Capital assets, net		$ 244,203,468	$ (7,545,319)	$ (261,860)	$ 236,396,289

NOTE 5 - CAPITAL ASSETS - Continued

		2015			
	Depreciable Life	Beginning balance	Additions	Retirements and transfers	Ending balance
Nondepreciable assets					
Land		$ 7,936,484	$ -	$ -	$ 7,936,484
Construction in-progress		1,835,429	4,701,480	(1,515,440)	5,021,469
Total nondepreciable assets		9,771,913	4,701,480	(1,515,440)	12,957,953
Depreciable assets					
Land improvements	5-10 years	2,462,883	-	-	2,462,883
Buildings	10-40 years	239,577,749	942,388	19,391,203	259,911,340
Furniture, fixtures and equipment	3-20 years	217,483,599	11,077,788	(21,401,223)	207,160,164
Total depreciable assets		459,524,231	12,020,176	(2,010,020)	469,534,387
Less accumulated depreciation					
Land improvements		(1,000,933)	(20,652)	-	(1,021,585)
Buildings		(81,519,725)	(8,994,661)	-	(92,393,119)
Furniture, fixtures and equipment		(137,946,260)	(12,260,324)	3,453,683	(144,874,168)
Total accumulated depreciation		(220,466,918)	(21,275,637)	3,453,683	(238,288,872)
Depreciable assets, net		239,057,313	(9,255,461)	1,443,663	231,245,515
Capital assets, net		$ 248,829,226	$ (4,553,981)	$ (71,777)	$ 244,203,468

NOTE 6 - LONG-TERM DEBT AND OTHER LIABILITIES

The following is a summary of long-term debt and other liabilities as of September 30:

	2016				
	Beginning balance	Additions	Reductions	Ending balance	Amount due within one year
Notes payable	$38,660,808	$48,508,000	$(14,421,003)	$72,747,805	$15,218,536
Capital lease obligations	57,019	-	(21,770)	35,249	23,141
Self-funded insurance, long-term (See Note 8)	1,411,390	-	(84,380)	1,327,010	-
Long-term debt and other liabilities	$40,129,217	$48,508,000	$(14,527,153)	$74,110,064	$15,241,677

	2015				
	Beginning balance	Additions	Reductions	Ending balance	Amount due within one year
Notes payable	$42,495,493	$2,500,000	$(6,334,685)	$38,660,808	$12,059,067
Capital lease obligations	165,966	-	(108,947)	57,019	32,374
Self-funded insurance, long-term (See Note 8)	1,355,120	56,270	-	1,411,390	-
Long-term debt and other liabilities	$44,016,579	$2,556,270	$(6,443,632)	$40,129,217	$12,091,441

Notes Payable

In 2012, the District entered into a Hospital Revenue Note, Series 2012 (2012 Note) in the amount of $10,465,000. The note is due in annual installments starting in 2013 through 2016, in amounts ranging from $1,330,000 to $3,080,000. The 2012 Note has a fixed interest rate of 2.36%. The 2012 Note proceeds were used to refund the District's 1997 Bonds.

The Series 2012 Note is collateralized by the gross revenues of the District (excluding tax revenues and contributions). In accordance with the provisions of the indenture agreement, accounts were established with the trustee to pay obligations created by the Note. In addition, the indenture contains certain restrictive covenants, which, among other things, restrict the issuance of debt, the granting of liens and the disposition of assets by the District. The District has also pledged to maintain rates sufficient for available revenues, as defined, to be greater than or equal to 110% of the average annual debt service requirements, as defined.

NOTE 6 - LONG-TERM DEBT AND OTHER LIABILITIES - Continued

In fiscal year 2002, the District entered into a note payable with an original principal amount of $20,000,000. The note is payable in annual principal installments ranging from $296,653 to $3,026,066, with a final maturity in May 21, 2021. Interest is due monthly at a rate equal to 67% of the London Interbank Offering Rate (LIBOR) plus 1.3 percent. The rate at September 30, 2016 and 2015 was 1.6506% and 2.36%, respectively. Included in non-current cash and investments restricted was approximately $1,500,000 at September 30, 2016 and 2015, respectively, of restricted cash as required under the debt agreement. The note is secured by the real property purchased with the note proceeds.

During 2008, the District entered into a note payable with Prosperity Bank (formerly American State Bank), and during 2013, the agreement was modified to reduce the interest rate to 3.99%. Interest and principal is due in monthly payments of $73,472 through July 17, 2037. The note is secured by the Medical Office Building.

During 2009, the District also entered into a note payable with Prosperity Bank (formerly American State Bank) and during 2013, the agreement was modified to reduce the interest rate to 3.99%. Interest and principal is due in monthly payments of $5,702 through July 17, 2037. The note is secured by the Medical Office Building.

During 2014, the District obtained a line of credit for up to $10 million. The line of credit is secured by certificates of deposit and bears interest at a rate not to exceed the certificate of deposit earning rate plus 2.6% (currently approximately 3%). The District borrowed the full amount during fiscal year 2014. Interest is due monthly and the outstanding principal is due December 14, 2016.

During 2016, the District entered into a note payable with Prosperity Bank for a total of $35,508,000. The proceeds from this note were used for the purchase of an additional 25 percent of the outstanding interest of outpatient diagnostic imaging services and the acquisition of the Imaging Center and Imaging Center Practice. The note bears interest at a rate of 3.49%. Interest and principal is due in quarterly payments of $1,433,115 through January 29, 2021. The note is secured by net revenues of the District.

During 2016, the District entered into limited revenue bonds series for $3,000,000 "Midland County Hospital District Hospital Mortgage Limited Revenue Bond, Series 2016A" with Bank of New York Mellon Trust Company, N.A. (trustee) and Prosperity Bank. The proceeds from the revenue bonds are to be used for hospital project costs for constructing, remodeling, renovating, improving, furnishing and equipping a neonatal intensive care unit; pharmacy, sterile processing and hospital materials management departments and the acquisition and implementation of an electronic medical records system. (The total aggregate principal not to exceed $40,000,000); of which, $3,000,000 has been drawn down for the sterile processing project costs as of September 30, 2016. The amortization schedule for the 2016A project is for principal payments to begin in May 2023 in repayment amounts ranging from $50,000 to $250,000 and interest payments being made quarterly on April 1, July 1, October 1 and January 1, at rates at 1.9% through February 24, 2021. Beginning on February 25, 2021, and each subsequent anniversary date of the fifth year, the interest rate shall reset to a fixed rate equal to the applicable 5 year CMT plus+ .75%.

NOTE 6 - LONG-TERM DEBT AND OTHER LIABILITIES - Continued

General Obligation Bonds

During 2009, the District issued $16,615,000, Series A 2009 and $98,380,000 Series B 2009 Limited Tax Bonds. The proceeds from these bonds were used to construct and equip a new nine floor patient tower.

The following is a summary of the 2009 Series bonds and related liabilities as of September 30:

	2016				
	Beginning balance	Additions	Reductions	Ending balance	Amount due within one year
Series A 2009	$ 5,340,000	$ -	$(2,605,000)	$ 2,735,000	$ 2,735,000
Series B 2009	98,380,000	-	-	98,380,000	-
Series B 2009 (Babs)	-	1,007,250	-	1,007,250	(1,007,250)
Original issue premium	70,970	-	(51,762)	19,208	-
	$103,790,970	$1,007,250	$(2,656,762)	$102,141,458	$ 1,727,750

	2015				
	Beginning balance	Additions	Reductions	Ending balance	Amount due within one year
Series A 2009	$ 7,815,000	$ -	$(2,475,000)	$ 5,340,000	$2,605,000
Series B 2009	98,380,000	-	-	98,380,000	-
Original issue premium	158,827	-	(87,857)	70,970	-
	$106,353,827	$ -	$(2,562,857)	$103,790,970	$2,605,000

The Series A 2009 bonds are tax exempt and are dated as of August 1, 2009 with scheduled maturities between May 15, 2013 and May 15, 2017, with annual principal and sinking fund payments ranging from $2,065,000 to $2,735,000. Interest payments began on May 15, 2010, with interest rates ranging from 3.0% to 5.0%. The 2009 Series B bonds were issued as taxable Build America Bonds and are dated as of August 1, 2009 with scheduled maturity dates between May 15, 2018 and May 15, 2022 in amounts ranging from $2,860,000 to $3,305,000. The Series B serial bonds carry interest rates ranging from 5.255% to 5.855%. The Series B 2009 bonds also include two term bonds maturing May 15, 2029 and May 15, 2039, with principal of $27,295,000 and $55,715,000, respectively. The term bonds require mandatory redemptions beginning May 15, 2023 through May 15, 2039 and interest rates of 6.34% and 6.44%. The 2009 Series B Build America Bonds have a tax rebate provision from the federal government effectively reducing the interest rate of the bonds by 1.54% from the stated rate. During 2013 and 2014, the tax rebate provision was reduced by 8.7% due to federally mandated sequestration adjustments. The District received rebates in the amount of $3,021,750 and $2,003,693 for the years ending September 30, 2016 and 2015, respectively.

NOTE 6 - LONG-TERM DEBT AND OTHER LIABILITIES - Continued

The November 15, Build America Bonds credit was issued and received before September 30, 2016. This credit of approximately $1 million was recorded in the investments designated for bond indenture line on the Statements of Net Position. This amount will be utilized on payments due in fiscal year 2017. Both the Series A and Series B bonds constitute direct obligations of the District payable from the levy and collection of an annual ad valorem tax levied by the District.

The maturities of notes payable as of September 30, 2016, are as follows:

	Principal	Interest	Total Debt Service
Year ended September 30:			
2017	$15,218,536	$ 2,872,698	$18,091,234
2018	8,063,672	2,015,801	10,079,473
2019	8,103,768	1,688,908	9,792,676
2020	8,482,921	1,352,308	9,835,229
2021	10,595,130	977,312	11,572,442
2022 to 2026	10,285,029	2,536,218	12,821,247
2027 to 2031	5,446,783	1,711,618	7,158,401
2032 to 2036	5,099,341	849,467	5,948,808
2037 to 2039	1,452,625	82,206	1,534,830
	$72,747,805	$14,086,536	$86,834,340

The maturities of the general obligation bond issues as of September 30, 2016 are as follows:

	Principal	Interest	Total Debt Service
Year ended September 30:			
2017	$ 2,735,000	$ 4,306,556	$ 7,041,556
2018	2,860,000	4,169,806	7,029,806
2019	2,960,000	4,068,328	7,028,328
2020	3,065,000	3,961,303	7,026,303
2021	3,180,000	3,845,308	7,025,308
2022 to 2026	17,935,000	17,178,769	35,113,769
2027 to 2031	22,025,000	13,013,179	35,038,179
2032 to 2036	27,130,000	7,817,787	34,947,787
2037 to 2039	19,225,000	1,695,397	20,920,397
	$101,115,000	$60,056,433	$161,171,433

NOTE 6 - LONG-TERM DEBT AND OTHER LIABILITIES - Continued

Capital Lease Obligations

The District leases certain medical equipment under noncancellable leases accounted for as capital leases that expire at various dates through March 2018. Commitments for minimum rentals under noncancellable capital leases as of September 30, 2016, are as follows:

	Principal	Interest	Total
Year ended September 30:			
2017	$23,141	$1,505	$24,646
2018	12,108	216	12,324
Total minimum lease payments	$35,249	$1,721	$36,970

NOTE 7 - INTEREST RATE SWAP

Objective of the Interest Rate Swap

As a strategy to maintain acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations and to lower its borrowing costs when compared against fixed-rate debt at the time of issuance, the District entered into an interest rate swap agreement for its 2002 long-term note payable to bank. The intention of the swap is to effectively change the District's variable interest rate on this note to a synthetic fixed rate of 5.02%.

Terms

The District entered an interest rate swap agreement on January 1, 2006 which terminates May 1, 2021. The agreement provides for the District to receive interest from the counterparty at the 67% of the London Interbank Offering Rate (LIBOR) plus 1.3% and to pay interest to the counterparty at a fixed rate of 5.02% on notional amounts of $13,176,379 and $13,501,256 at September 30, 2016 and 2015, respectively. The notional amount of the swap amortizes over time. Under the agreement, the District pays or receives the net interest amount monthly, with the monthly settlements included in interest expense.

NOTE 7 - INTEREST RATE SWAP - Continued

Fair Value

As of September 30, 2016 and 2015, the agreement had a negative fair value of $1,237,011 and $1,509,889, respectively, calculated using the par-value method, i.e., the fixed rate on the swap was compared with the current fixed rates that could be achieved in the marketplace should the swap be unwound. The fixed-rate component was valued by discounting the fixed-rate cash flows using the current yield to maturity of a comparable bond. The variable-rate component was assumed to be at par value because the interest rate resets to the market rate at every reset date. The fair value was then calculated by subtracting the estimated market value of the fixed component from the established market value of the variable component. The fair value of the agreement is recognized as deferred outflow in the District's statement of net position. As of October 1, 2011, the swap is being accounted for as an effective hedging instrument and the offsetting balance is reflected as a deferred outflow on the District's statements of net position. The change in fair value of the swap of $272,878 and $294,045 for the years ended September 30, 2016 and 2015, respectively, is shown as an adjustment to the carrying amount of the related deferred outflow on the statements of net position.

Credit Risk

As of September 30, 2016 and 2015, the District was not exposed to credit risk because the swap had a negative fair value. However, should interest rates change and the fair value of the swap become positive, the District would be exposed to credit risk on the amount of the derivative's fair value. The swap's counterparty was rated A by Standard and Poor's as of September 30, 2014.

Termination Risk

The District or the counterparty may terminate the swap if the other party fails to perform under the terms of the contract. If the swap has a negative fair value at the time of termination, the District would be liable to the counterparty for a payment equal to the swap's then fair value.

NOTE 7 - INTEREST RATE SWAP - Continued

Swap Payments and Associated Debt

Future debt service requirements of the variable-rate note and the future net swap payments as of September 30, 2016, are shown below. These payments assume that current interest rates remain the same throughout the term of the agreements. As rates vary, variable-rate interest payments and net swap payments will vary.

	Variable Rate Note			
	Principal	Interest	Interest Rate Swap, Net	Total
Year ended September 30:				
2017	$ 173,194	$214,625	$ 448,674	$ 836,493
2018	2,795,816	168,479	374,829	3,339,124
2019	2,644,923	124,823	282,583	3,052,329
2020	2,829,083	171,518	94,122	3,094,723
2021	4,733,363	78,127	11,166	4,822,656
	$13,176,379	$757,572	$1,211,374	$15,145,325

NOTE 8 - COMMITMENTS AND CONTINGENCIES

Operating Leases

Rental expenditures for operating leases with minimum rentals under cancelable operating leases as of September 30, 2016 and 2015 were $2,801,450 and $2,425,284, respectively.

Self-insurance

The District is self-insured for certain professional and general liability risks. The carrying amount of accrued malpractice claims is discounted using a rate of 0.10% and 0.25% for the years ending September 30, 2016 and 2015, respectively. A revocable trust has been established and actuarially-determined amounts have been funded with the trust to cover the estimated eventual costs of self-insured claims. These accounts are reflected in board-designated funds in the accompanying statements of net position. The District's maximum liability as a governmental unit under the Texas Tort Claims Act is $100,000 per individual and $300,000 for each occurrence. The long-term portion of this accrual is included in long-term debt and other liabilities on the statement of net position.

NOTE 8 - COMMITMENTS AND CONTINGENCIES - Continued

The District began self-insuring its exposure to workers' compensation losses as of May 1, 1989. The program pays the workers' compensation losses and allocated loss adjustment expenses incurred by the employees of the District. The District pays unallocated loss adjustment expenses from operating revenues, not the program. The District currently carries specific excess insurance of $400,000 per claim.

The District is self-insured for group health insurance. Commercial stop-loss is purchased for claims in excess of $300,000. A provision is accrued for self-insured health claims including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims, and other economic and social factors.

It is reasonably possible that the District's estimates will change by a material amount in the near term. Activity in the District's self-insured risk areas during 2016 and 2015 are presented in the following table:

	2016				
	Beginning balance	Current year estimates of claims	Claims payments	Balance at end of fiscal year	Amount due within one year
Hospital professional and general liability	$ 500,803	$ 89,130	$ (117,334)	$ 472,599	$ 136,702
Workers compensation liability	2,181,864	428,908	(316,396)	2,294,376	1,303,263
Group health liability	794,755	10,250,169	(9,766,721)	1,278,202	1,278,202
	$3,477,422	$10,768,207	$(10,200,451)	$4,045,177	$2,718,167

	2015				
	Beginning balance	Current year estimates of claims	Claims payments	Balance at end of fiscal year	Amount due within one year
Hospital professional and general liability	$ 507,918	$ 120,056	$ (127,171)	$ 500,803	$ 128,624
Workers compensation liability	2,086,693	610,223	(515,052)	2,181,864	1,142,653
Group health liability	598,173	8,313,471	(8,116,889)	794,755	794,755
	$3,192,784	$9,043,750	$(8,759,112)	$3,477,422	$2,066,032

Litigation

In the normal course of business, the District is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the District's self-insurance program or by commercial insurance; for example, allegations regarding employment practices or performance of contracts. The District evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each claim. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

NOTE 8 - COMMITMENTS AND CONTINGENCIES - Continued

Employee Benefits

In 2005, the District began a defined contribution pension plan known as a Section 401(a) Plan. This plan covers selected managerial employees. The plan is administered by a third-party administrator appointed by the District's board. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the District's governing body. The employees do not contribute to the plan. During both the years ending September 30, 2016 and 2015, the District contributed $5,828 to the plan, respectively, and there are no amounts outstanding.

In 2005, the District also began a defined contribution pension plan known as a Section 403(b) Plan. This plan covers substantially all employees meeting age and service requirements. The plan is administered by a third-party administrator appointed by the District board. The plan provides retirement and death benefits to plan members and their beneficiaries. Benefit provisions are contained in the plan document and were established and can be amended by action of the District's governing body. Employee contributions are discretionary. Based on years of service, the District matches employee contributions on an increasing scale starting at 50% of the first 6% increasing to 100% of the first 7.5%. A member is fully vested in the employer match after 1 year of service. Part-time employees are also allowed to contribute to the plan; however, the District does not match any contributions made by those employees. As of September 30, 2016 and 2015, the District has outstanding liabilities of $489,203 and $224,891 for the plan that are reported in accrued payroll on the statement of net position.

	2016	2015
Participant salaries	$52,704,499	$49,283,213
Contributions by employees	$ 4,012,804	$ 3,785,439
Percent of participant salaries	7.61%	7.68%
Contributions by the District	$ 2,306,624	$ 2,218,087
Percent of participant salaries	4.38%	4.50%

NOTE 9 - DEFINED BENEFIT PENSION PLAN

General information about the Plan

Plan Description. The District sponsors the Midland Memorial Hospital Defined Benefit Retirement Savings Plan (the Plan), a single-employer defined benefit pension plan for eligible employees. The Plan provides retirement, death and disability benefits. Benefits ceased to accrue effective December 31, 2004 for all participants who had not both attained age 50 and completed at least five years of benefit accrual services as of December 31, 2004. Participants who had both attained age 50 and completed five years of benefit accrual services as of December 31, 2005, through December 31, 2009 were given the choice of having a continuation of benefit accruals or opting not to have continuing benefit accruals. Amendments to the plan are made only with the authority of the District's board of directors. The plan does not issue a stand-alone financial report. Eligible participants who opted to have continuing benefit accruals and less than 20 years of benefit accrual service are required to make employee contributions of 4% of eligible salary; employees with years of benefit accrual service of 20 to 29 years are required to make employee contributions of 3% of eligible salary; and employees with 30 years or more of benefit accrual service are required to make employee contributions of 2% of eligible salary. Effective December 31, 2005, no new participants were eligible to enter the Plan. During 2010, a Voluntary Enhanced Retirement Program (VERP) was offered to certain participants during the period July 12, 2010 to August 26, 2010. Effective September 3, 2010, remaining benefit accruals were frozen and a benefit enhancement in connection with the benefit freeze was offered to certain participants and all employee contributions ceased. In May 2013, the District offered a buy-out option to participants in the frozen benefit plan. Out of 376 participants, 112 opted for the final lump sum payments, in the total amount of $1,892,033, at an interest rate of 9.5%. In March 2013, the District offered voluntary enhanced retirement program (VERP), in which 80 participants received a lump sum payout of $4 million. The plan administrator for "Midland Memorial Hospital Defined Benefit Retirement Savings Plan" is Transamerica Retirement Solutions (formerly, Diversified Investment Advisors), Riverside Center, 275 Grove Street, Suite 2-300, Newton, MA 02466.

Benefits provided. The Plan provides retirement, disability, and death benefits. Retirement benefits for general employees are calculated as the sum of 0.75% of the employee's average monthly compensation times the employee's years of service and 0.65% of the employee's highest 5 years of the last 10 years average monthly compensation in excess of $400 times up to 30 years of the employee's years of service. Benefits for a limited group of management employees are calculated as 4% of the employee's final 3-year average monthly compensation times the employee's years of service up to 15 years.

Employees with 5 years of continuous service are eligible to retire at age 55 at a reduced rate and are eligible for full benefits at age 65. General employees are eligible for disability benefits that are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are equivalent to the present value of accrued normal retirement benefit. An employee who leaves District service may withdraw his or her contributions, plus any accumulated interest.

Benefit terms for the select group of management provides for an annual cost-of-living adjustment based on the lower of 3% or the consumer price index for urban consumers at September of each year.

NOTE 9 - DEFINED BENEFIT PENSION PLAN - Continued

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

Inactive employees or beneficiaries currently receiving benefits	303
Inactive employees entitled to but not yet receiving benefits	370
Active employees	255
	928

The plan was closed to new entrants effective December 31, 2005.

Contributions. The board of directors of the District has sole authority to establish and amend the contribution requirements of the Plan. The Board establishes rates based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance any unfunded accrued liability. The District has established an annual contribution of $2,500,000. As of 2010, no contributions by employees are required under the Plan.

Net Pension Liability

The District's net pension liability was measured as of September 30, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2015 updated through the measurement date of September 30, 2016.

Actuarial assumptions. The total pension liability in the September 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Cost of living benefit increases	For select management only - CPI increase not to exceed 3%
Inflation	3%
Investment rate of return	8%, net of pension plan administrative expense
Actuarial cost method	Entry age normal cost method
Asset valuation method	Plan invested assets are reported at fair value

Mortality rates used were the updated static mortality tables in accordance with IRS Regulation 1.430(h)(3)-1 which is based on the MP-2015 Mortality Table with adjustments for mortality improvements based on Scale AA.

The actuarial assumptions used in the January 1, 2016 valuation were based on results of an actuarial experience study for the period January 1, 2011 to December 31, 2015.

NOTE 9 - DEFINED BENEFIT PENSION PLAN - Continued

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns net of pension plan investment expense) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage.

The Plan's policy in regard to the allocation of invested assets is established and may be amended by the District's Board. Plan assets are managed on a total return basis with a long-term objective of achieving and maintaining a fully funded status for the benefits provided through the pension plan. The target allocation as of September 30, 2016, and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Real Rate of Return
Equity	54%	4.9%
Fixed	30%	3.2%
International	11%	5.3%
Real estate and other	5%	3.3%
Total	100%	

Rate of return. For the year ended September 30, 2016, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was 4.2 percent. The money-weighted rate of return expresses investment performance, net of investment expense, and is adjusted for the changing amounts actually invested.

Discount rate. The discount rate used to measure the total pension liability was 8 percent. The projection of cash flows used to determine the discount rate assumed that District contributions will be made at a rate of $2,500,000 annually. 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 9 - DEFINED BENEFIT PENSION PLAN - Continued

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at September 30, 2015	$61,885,812	$33,976,301	$27,909,511
Changes for the year:			
Interest	4,803,747	-	4,803,747
Differences between expected and actual experience	(424,609)	-	(424,609)
Changes of assumptions	(111,971)	-	(111,971)
Contributions - employer	-	2,500,000	(2,500,000)
Net investment income	-	3,330,578	(3,330,578)
Benefits payments, including refunds of employee contributions	(3,626,455)	(3,626,455)	-
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	640,712	2,204,123	(1,563,411)
Balances at September 30, 2016	$62,526,524	$36,180,424	$26,346,100

NOTE 9 - DEFINED BENEFIT PENSION PLAN - Continued

Changes in the Net Pension Liability

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) – (b)
Balances at September 30, 2014	$57,969,870	$36,362,580	$21,607,290
Changes for the year:			
Interest	4,497,604	-	4,497,604
Differences between expected and actual experience	(20,677)	-	(20,677)
Changes of assumptions	2,786,166	-	2,786,166
Contributions - employer	-	2,500,000	(2,500,000)
Net investment loss		(1,539,128)	1,539,128
Benefits payments, including refunds of employee contributions	(3,347,151)	(3,347,151)	-
Administrative expense	-	-	-
Other changes	-	-	-
Net changes	3,915,942	(2,386,279)	6,302,221
Balances at September 30, 2015	$61,885,812	$33,976,301	$27,909,511

The plans' fiduciary net position as a percentage of total pension liability was 57.86% and 54.90% as of September 30, 2016 and 2015, respectively.

NOTE 9 - DEFINED BENEFIT PENSION PLAN - Continued

Sensitivity of the net pension liability to changes in the discount rate. The following presents the net pension liability of the District, calculated using the discount rate of 8%, as well as what the District's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7%) or 1-percentage-point higher (9%) than the current rate:

	1% Decrease (7%)	Current Discount Rate (8%)	1% Increase (9%)
District's net pension liability	$(20,835,722)	$(26,346,100)	$(32,841,712)

Plan Fiduciary Net Position

	September 30, 2016	September 30, 2015
Assets		
Contributions receivable	$ 625,000	$ 625,000
Investments		
Equity	19,447,612	19,800,894
Fixed income	10,605,818	10,361,229
Real estate	1,743,804	1,828,252
Other	3,758,190	1,360,926
Total investments	35,555,424	33,351,301
Total assets	$36,180,424	$33,976,301

Investments consist of mutual funds that are stated at fair value determined by the closing exchange price at the statement of fiduciary net position date.

NOTE 9 - DEFINED BENEFIT PENSION PLAN - Continued

Pension Expense and Deferred Outflows and Inflows of Resources Related to Pensions

For each of the years ended September 30, 2016 and 2015, the District recognized pension expense of approximately $3.9 million. At September 30, 2016 and 2015, the District reported deferred outflows and inflows of resources related to pensions from the following sources:

2016	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$214,923
Changes of assumptions	352,835	55,985
Net difference between projected and actual earnings on plan investments	2,724,070	548,825
Contributions subsequent to the measurement date	$3,076,905	$819,733

2015	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	$ -	$ 11,648
Changes of assumptions	1,585,056	-
Net difference between projected and actual earnings on plan investments	3,647,932	-
Contributions subsequent to the measurement date	$5,232,988	$ 11,648

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

Year ended September 30:	
2017	$ 868,582
2018	786,657
2019	739,139
2020	(137,207)

NOTE 9 - DEFINED BENEFIT PENSION PLAN - Continued

Payable to the Pension Plan

At September 30, 2016, the District reported a payable of $625,000 for the outstanding amount of contributions to the pension plan required for the year ended September 30, 2016 which is included in accounts payable on the statements of net position.

NOTE 10 - DEPOSITS AND INVESTMENTS

State law requires collateralization of all deposits with a combination of federal depository insurance and certain other qualified investments having an aggregate value at least equal to the amount of the deposits. At September 30, 2016 and 2015, the District's bank balances of $42,919,365 and $53,907,157, respectively, were fully insured or collateralized by securities held by the pledging financial institution's agent in the District's name.

The District maintained the following deposit and investment balances:

	2016	2015
Carrying value:		
Deposits	$38,527,971	$50,012,079
Investments	3,973,188	2,432,054
	$42,501,159	$52,444,133

These amounts are included in the following captions on the statements of net position:

	2016	2015
Cash and cash equivalents	$25,909,065	$19,524,256
Short-term investments	7,976,576	12,941,990
Self-funded insurance funds, current	1,129,818	1,167,836
Investments designated for bond indenture	3,973,188	2,432,054
Non-current cash and investments:		
Restricted tower funds	-	12,907,215
Restricted under debt agreement	2,460,314	2,456,604
Self-funded insurance funds	1,052,198	1,014,178
	$42,501,159	$52,444,133

The District's investments consist solely of money market mutual funds at September 30, 2016 and 2015.

The Foundation maintained deposit bank balances of $248,444 and $1,146,949, respectively, with reported book balances of $240,717 and $1,271,104, respectively, at September 30, 2016 and 2015, which were fully insured or collateralized by securities held in the District's name.

NOTE 10 - DEPOSITS AND INVESTMENTS - Continued

Interest Rate Risk

As a means of limiting its exposure to fair value losses arising from rising interest rates, the District limits this risk by investing primarily in money market funds with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk-Investments

The District's investment policy requires that all funds (except cash and amounts held in a trust fund) will be invested directly in U.S. Government Securities or no-load money market or mutual funds with a maximum duration of three years. The District's money market mutual funds had investment ratings of AAAm by S&P.

Custodial Credit Risk – Deposits

For deposits, custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District's investment policy requires available cash over $250,000 in a bank will be collateralized by the bank pledging U.S. Securities (securities are obligations issued or guaranteed by U.S. government agencies, authorities, instrumentalities or sponsored enterprises) or providing a repurchase agreement collateralized by obligations of the United States or its agencies and instrumentalities.

Concentration of Credit Risk

The District places no limit on the amount that may be invested in any one issuer. At September 30, 2016 and 2015, the District's investment in the Dreyfus Institutional Cash Advantage Fund accounted for 100% of its total investments.

NOTE 11 - FOUNDATION INVESTMENTS

Investments at September 30, 2016 and 2015 are comprised of the following with maturities of less than one year:

	Fair Value	
	2016	2015
Money market and mutual funds	$25,728,641	$22,970,513

The following table summarizes the investment return and its classification in the statements of revenues, expenses and changes in net position for the years ended September 30, 2016 and 2015:

	2016		2015	
	Unrestricted	Temporarily Restricted	Unrestricted	Temporarily Restricted
Investment income (loss)	$ 9,716	$ 664,075	$ (5,091)	$ 515,731
Net appreciation (depreciation) in fair value of investments	(366,484)	1,496,872	407,277	(2,362,220)
	$(356,768)	$2,160,947	$402,186	$(1,846,489)

The Foundation recognized unrealized gains (losses) of $1,130,388 and $(1,954,943) which are reported in investment income for the years ending September 30, 2016 and 2015, respectively.

NOTE 12 - HEALTH CARE REFORM

The Patient Protection and Affordable Care Act (PPACA) is substantially reforming the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation established health insurance exchanges, which provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Texas has indicated it will not expand the Medicaid program, which may result in revenues from newly covered individuals not offsetting the Medical Center's reduced revenue from other Medicare/Medicaid programs. CMS has previously stated that it had concerns regarding financial funding arrangements in Texas and their possible effect on the local governmental entity's ability to make intergovernmental transfers on behalf of some private hospitals. Recent communications between HHSC and CMS confirms that, in the event that any change is ultimately determined to be necessary, Texas will have until September of 2017 to modify its private hospital funding methodology. HHSC and CMS continue to have frequent discussions on the issue.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is possible it will have a negative impact on the Medical Center's net patient service revenue. In addition, it is possible the Medical Center will experience payment delays and other operational challenges during PPACA's implementation.

NOTE 13 - FOUNDATION

The Foundation is organized to foster and support the activities and purposes of the healthcare operations division of the District. The board of trustees of the Foundation manages the healthcare operations division under an amended agreement with the District, whereby the healthcare operations division paid an annual management fee to the Foundation of $850,000 for both of the years ended September 30, 2016 and 2015.

The healthcare operations division is the primary beneficiary of grants from the Foundation. If the Foundation or its donors have placed restrictions on the grants, they are expended by the healthcare operations division in accordance with these restrictions. The healthcare operations division records these grants at the time they are authorized by the Foundation. During the years ended September 30, 2016 and 2015, the Foundation contributed approximately $2,055,000 and $298,000, respectively, to the District for capital projects and other operating purposes.

NOTE 13 - FOUNDATION - Continued

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

	2016	2015
Restricted – expendable		
Assets available for capital purchases	$ 2,331,691	$ 1,481,924
Assets available to fund specific hospital operations	3,425,813	2,402,386
Assets available for education and training	1,220,825	978,032
	6,978,329	4,862,342
Restricted – nonexpendable		
Income available for capital acquisitions	10,954,821	10,624,351
Income available to fund specific hospital operations	21,885,720	23,467,986
Income available for education and training	496,735	478,701
	$33,337,276	$34,571,038

NOTE 14 - BENEFICIAL INTERESTS IN TRUSTS

The Foundation is the beneficiary of multiple charitable trusts. Under some of these trusts, the Foundation will receive a specified percentage of the trust assets upon the death of the beneficiaries of the trusts. The proceeds for these trusts may be available for unrestricted purposes or for restricted purposes specified by the donors. The Foundation is also the beneficiary of perpetual trusts administered by an outside party. Under the terms of these perpetual trusts, the Foundation has the irrevocable right to receive the income earned on the assets in perpetuity, but never receives the assets held in trust.

A summary of beneficial interests in trusts include:

	2016	2015
Temporarily restricted		
Assets available for unrestricted use	$ 228,084	$ 246,841
Permanently restricted for endowments		
Income available for capital acquisitions	336,973	254,526
Income available for nursing education	11,983,044	13,971,574
Total	$12,548,101	$14,472,941

NOTE 15 - COMBINING COMPONENT UNIT INFORMATION

The following tables include combining statements of net position information for the District and its blended component units as of September 30, 2016 and 2015.

	2016			2015		
	Midland County Hospital District	501(a) Entities	The District Combined	Midland County Hospital District	501(a) Entities	The District Combined
Assets and Deferred Outflows and Resources						
Current assets:						
Cash and cash equivalents	$ 14,121,694	$ 863,445	$ 14,985,139	$ 18,732,625	$ 791,631	$ 19,524,256
Cash designated for other capital projects	10,923,926	-	10,923,926	-	-	-
Short-term investments	7,976,576	-	7,976,576	12,941,990	-	12,941,990
Tax receivable	660,903	-	660,903	533,982	-	533,982
Patient accounts receivable, less allowance for doubtful accounts	37,827,883	2,051,893	39,879,776	38,228,448	1,362,823	39,591,271
Inventories	8,335,329	101,368	8,436,697	8,084,390	148,481	8,232,871
Prepaid expenses	2,866,639	130,972	2,997,611	2,029,123	101,469	2,130,592
Other receivables	8,091,443	412,608	8,504,051	7,075,015	1,284,344	8,359,359
Amounts due from Medicare and Medicaid	19,534,361	-	19,534,361	17,652,397	-	17,652,397
Self-funded insurance funds, current	1,129,818	-	1,129,818	1,167,836	-	1,167,836
Investments designated for bond indenture	3,973,188	-	3,973,188	2,432,054	-	2,432,054
Total current assets	115,441,760	3,560,286	119,002,046	108,877,860	3,688,748	112,566,608
Noncurrent cash and investments						
Restricted tower funds	-	-	-	12,907,215	-	12,907,215
Restricted under debt agreement	2,460,314	-	2,460,314	2,456,604	-	2,456,604
Self-funded insurance funds	1,052,198	-	1,052,198	1,014,178	-	1,014,178
Total investments limited as to use	3,512,512	-	3,512,512	16,377,997	-	16,377,997
Capital assets, net of accumulated depreciation	234,345,895	2,050,394	236,396,289	241,941,403	2,262,065	244,203,468
Other assets:						
Goodwill and intangibles, net of accumulated amortization	3,570,867	-	3,570,867	3,778,865	-	3,778,865
Other	11,368,558	52,252	11,420,810	5,926,487	52,252	5,978,739
Total other assets	14,939,425	52,252	14,991,677	9,705,352	52,252	9,757,604
Total assets	368,239,592	5,662,932	373,902,524	376,902,612	6,003,065	382,905,677
Deferred outflows of resources	6,669,916	-	6,669,916	6,742,877	-	6,742,877
Total assets and deferred outflows of resources	$374,909,508	$5,662,932	$380,572,440	$383,645,489	$6,003,065	$389,648,554

NOTE 15 - COMBINING COMPONENT UNIT INFORMATION - Continued

	2016			2015		
	Midland County Hospital District	501(a) Entities	The District Combined	Midland County Hospital District	501(a) Entities	The District Combined
Liabilities and Deferred Inflows of Resources						
Current liabilities:						
Accounts payable and accrued liabilities	$ 17,686,737	$2,265,857	$ 19,952,594	$ 23,673,311	$ 860,428	$ 24,533,739
Accrued interest payable	2,007,838	-	2,007,838	1,761,880	-	1,761,880
Accrued payroll	8,213,597	1,573,810	9,787,407	9,536,979	1,219,542	10,756,521
Accrued self-insurance liabilities	2,718,167	-	2,718,167	2,066,032	-	2,066,032
Current maturities of general obligation bonds payable	1,727,750	-	1,727,750	2,605,000	-	2,605,000
Current maturities of long-term debt	15,218,536	23,141	15,241,677	12,059,067	32,374	12,091,441
Total current liabilities	47,572,625	3,862,808	51,435,433	51,702,269	2,112,344	53,814,613
Payable for pension obligation	26,346,100	-	26,346,100	27,909,512	-	27,909,512
Interest rate swap	1,237,011	-	1,237,011	1,509,889	-	1,509,889
Long-term debt and other liabilities	58,856,280	12,107	58,868,387	28,013,131	24,645	28,037,776
General obligation bonds payable	99,406,458	-	99,406,458	101,185,970	-	101,185,970
Total liabilities	233,418,474	3,874,915	237,293,389	210,320,771	2,136,989	212,457,760
Deferred inflows of resources	5,085,261	-	5,085,261	2,230,051	-	2,230,051
Net position						
Net investment in capital assets	103,396,944	-	103,396,944	109,251,612	-	109,251,612
Restricted - expendable for capital assets	10,923,926	-	10,923,926	12,907,215	-	12,907,215
Restricted - expendable for debt service	6,433,502	-	6,433,502	4,888,659	-	4,888,659
Unrestricted	15,651,401	1,788,017	17,439,418	44,047,181	3,866,076	47,913,257
Total net position	136,405,773	1,788,017	138,193,790	171,094,667	3,866,076	174,960,743
Total liabilities, deferred inflows of resources and net position	$374,909,508	$5,662,932	$380,572,440	$383,645,489	$6,003,065	$389,648,554

NOTE 15 - COMBINING COMPONENT UNIT INFORMATION - Continued

The following tables include combining statements of revenues, expenses and changes in net position information for the District and its blended component units for the years ended September 30, 2016 and 2015.

	2016			2015		
	Midland County Hospital District	501(a) Entities	The District Combined	Midland County Hospital District	501(a) Entities	The District Combined
Revenues:						
Net patient care revenues	$237,339,394	$28,422,817	$265,762,211	$236,806,445	$27,243,352	$264,049,797
Other income	8,727,780	7,025,624	15,753,404	7,991,752	3,438,252	11,430,004
Total revenues	246,067,174	35,448,441	281,515,615	244,798,197	30,681,604	275,479,801
Expenses:						
Salaries and fringe benefits	129,660,162	26,517,009	156,177,171	125,180,815	23,865,648	149,046,463
Supplies	47,186,667	2,371,814	49,558,481	47,391,207	2,442,172	49,833,379
Other	39,576,437	12,618,174	52,194,611	45,232,926	7,484,356	52,717,282
Depreciation and amortization	21,813,745	547,159	22,360,904	20,968,178	567,230	21,535,408
Total expenses	238,237,011	42,054,156	280,291,167	238,773,126	34,359,406	273,132,532
Income (loss) from operations	7,830,163	(6,605,715)	1,224,448	6,025,071	(3,677,802)	2,347,269
Other nonoperating income and expense:						
Ad valorem tax support	27,590,399	-	27,590,399	25,890,764	-	25,890,764
Investment income	141,360	14	141,374	257,711	16	257,727
Other nonoperating income (loss)	(26,546,875)	(3,559,439)	(30,106,314)	(548,174)	(3,099,240)	(3,647,414)
Regional upper payment limit contributions	(25,481,122)	-	(25,481,122)	(17,908,008)	-	(17,908,008)
Transfers from(to) related entities	(8,090,000)	8,090,000	-	(6,850,196)	6,850,196	-
Interest on long-term debt	(6,719,656)	(2,919)	(6,722,575)	(5,977,307)	(6,365)	(5,983,672)
Total other nonoperating income (loss)	(39,105,894)	4,527,656	(34,578,238)	(5,135,210)	3,744,607	(1,390,603)
Income (loss) before distribution to other beneficial owners and capital grants and gifts	(31,275,731)	(2,078,059)	(33,353,790)	889,861	66,805	956,666
Distribution to other beneficial owners of partnership	(8,548,050)	-	(8,548,050)	(11,527,218)	-	(11,527,218)
Capital grants and gifts	5,134,887	-	5,134,887	478,580	-	478,580
Change in net position	(34,688,894)	(2,078,059)	(36,766,953)	(10,158,777)	66,805	(10,091,972)
Net position – beginning of year	171,094,667	3,866,076	174,960,743	181,253,444	3,799,271	185,052,715
Net position – end of year	$136,405,773	$ 1,788,017	$138,193,790	$171,094,667	$ 3,866,076	$174,960,743

NOTE 15 - COMBINING COMPONENT UNIT INFORMATION - Continued

The following table includes condensed combining statements of cash flow information for the District and its blended component units for the years ended September 30, 2016 and 2015.

	2016			2015		
	Midland County Hospital District	501(a) Entities	The District Combined	Midland County Hospital District	501(a) Entities	The District Combined
Net cash provided by (used in) operating activities	$ 18,467,860	$(4,098,586)	$ 14,369,274	$ 18,816,866	$(4,210,153)	$ 14,408,713
Net cash provided by (used in) noncapital financing activities	1,982,355	(7,400,663)	(5,418,308)	(5,714,088)	6,850,196	1,136,108
Net cash provided by used in capital and related financing activities	16,479,499	7,440,488	23,919,987	(21,473,620)	(107,131)	(21,580,751)
Net cash (used in) provided by investing activities	(43,520,224)	4,130,575	(39,389,649)	(2,850,847)	(3,099,224)	(5,950,071)
Net (decrease) increase in cash and cash equivalents	(6,590,510)	71,814	(6,518,696)	(11,419,689)	(566,312)	(11,986,001)
Cash and cash equivalents, beginning of year	34,096,444	791,631	34,888,075	45,516,133	1,357,943	46,874,076
Cash and cash equivalents, end of year	$ 27,505,934	$ 863,445	$ 28,369,379	$ 34,096,444	$ 791,631	$ 34,888,075

REQUIRED SUPPLEMENTARY INFORMATION

(UNAUDITED)

MIDLAND COUNTY HOSPITAL DISTRICT

Statement of Changes in the Net Pension Liability and Related Ratios

	2016	2015	2014
Total pension liability			
Interest	$ 4,803,747	$ 4,497,604	$ 4,411,737
Differences between expected and actual experience	(424,609)	(20,677)	-
Changes of assumptions	(111,971)	2,786,166	75,390
Benefit payments, including refunds of member contributions	(3,626,455)	(3,347,151)	(3,231,373)
Net change in total pension liability	640,712	3,915,942	1,255,754
Total pension liability—beginning	61,885,812	57,969,870	56,714,116
Total pension liability—ending (a)	62,526,524	61,885,812	57,969,870
Plan fiduciary net position			
Contributions—employer	2,500,000	2,500,000	2,500,000
Net investment income (loss)	3,330,578	(1,539,128)	2,478,434
Benefit payments, including refunds of member contributions	(3,626,455)	(3,347,151)	(3,231,373)
Net change in plan fiduciary net position	2,204,123	(2,386,279)	1,747,061
Plan fiduciary net position—beginning	33,976,301	36,362,580	34,615,519
Plan fiduciary net position—ending (b)	36,180,424	33,976,301	36,362,580
District's net pension liability—ending (a) – (b)	$26,346,100	$27,909,511	$21,607,290
Plan fiduciary net position as a percentage of the total pension liability	57.86%	54.90%	62.73%
Covered-employee payroll	N/A	N/A	N/A
District's net pension liability as a percentage of covered-employee payroll	N/A	N/A	N/A

Notes to Schedule:

Changes of assumptions. A temporary lump sum window was opened for vested terminated participants in 2012 which allows certain participants to choose a lump sum payment option.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

MIDLAND COUNTY HOSPITAL DISTRICT

Statement of Employer Contributions

	2016	2015	2014
Actuarially determined contribution	$1,996,818	$1,785,418	$1,873,523
Contributions in relation to the actuarially determined contribution	2,500,000	2,500,000	2,500,000
Contribution excess	$ 503,182	$ 714,582	$ 626,477
Covered-employee payroll	N/A	N/A	N/A
Contributions as a percentage of covered-employee payroll	N/A	N/A	N/A

Notes to Schedule:

Valuation date:

Actuarially determined contribution rates are calculated as of 1/1 one year prior to the end of the fiscal year in which contributions are reported

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal cost
Amortization method	Average future working lifetime of participants
Remaining amortization period	2.5 years
Asset valuation method	5-year smoothed market
Inflation	3%
Salary increases	N/A
Investment rate of return	8%, net of pension plan administrative expense, including inflation
Retirement age	65
Mortality	Static mortality table in accordance with IRS Regulation 1.430(h)(3)-1 for the valuation year

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available.

SUPPLEMENTARY SCHEDULES

MIDLAND COUNTY HOSPITAL DISTRICT

Divisional Statements of Net Position

September 30, 2016 and 2015

	The District		Premier Family Care		Permian Cardiology, Inc.		Midland, Texas Orthopedic Group, Inc.		Midland Inpatient Medical Associates		Total	
Assets and Deferred Outflows of Resources	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Current assets:												
Cash and cash equivalents	$ 14,121,694	$ 18,732,625	$ 524,500	$ 628,802	$199,251	$ 37,185	$ 108,881	$ 125,644	$ 30,813	$ -	$ 14,985,139	$ 19,524,256
Cash designated for other capital projects	10,923,926	-	-	-	-	-	-	-	-	-	10,923,926	-
Short -term investments	7,976,576	12,941,990	-	-	-	-	-	-	-	-	7,976,576	12,941,990
Tax receivable, less allowance for doubtful accounts	660,903	533,982	-	-	-	-	-	-	-	-	660,903	533,982
Patient accounts receivable, less allowance for doubtful accounts	37,827,883	38,228,448	756,735	731,504	334,566	294,620	388,482	336,699	572,110	-	39,879,776	39,591,271
Inventories	8,335,329	8,084,390	-	-	-	-	101,368	148,481	-	-	8,436,697	8,232,871
Prepaid expenses	2,866,639	2,029,123	51,699	68,231	12,919	6,873	61,265	26,365	5,089	-	2,997,611	2,130,592
Other receivables	8,091,443	7,075,015	369,358	1,020,494	43,250	263,850	-	-	-	-	8,504,051	8,359,359
Amounts due from Medicare and Medicaid	19,534,361	17,652,397	-	-	-	-	-	-	-	-	19,534,361	17,652,397
Self-funded insurance funds, current	1,129,818	1,167,836	-	-	-	-	-	-	-	-	1,129,818	1,167,836
Investments designated for bond indenture	3,973,188	2,432,054	-	-	-	-	-	-	-	-	3,973,188	2,432,054
Total current assets	115,441,760	108,877,860	1,702,292	2,449,031	589,986	602,528	659,996	637,189	608,012	-	119,002,046	112,566,608
Noncurrent cash and investments												
Restricted tower funds	-	12,907,215	-	-	-	-	-	-	-	-	-	12,907,215
Restricted under debt agreement	2,460,314	2,456,604	-	-	-	-	-	-	-	-	2,460,314	2,456,604
Self-funded insurance funds	1,052,198	1,014,178	-	-	-	-	-	-	-	-	1,052,198	1,014,178
Total investments limited as to use	3,512,512	16,377,997	-	-	-	-	-	-	-	-	3,512,512	16,377,997
Capital assets, net of accumulated depreciation	234,345,895	241,941,403	1,502,383	1,519,341	11,436	35,622	536,575	707,102	-	-	236,396,289	244,203,468
Other assets:												
Goodwill and intangibles, net of accumulated amortization	3,570,867	3,778,865	-	-	-	-	-	-	-	-	3,570,867	3,778,865
Other	11,368,558	5,926,487	-	-	52,252	52,252	-	-	-	-	11,420,810	5,978,739
Total other assets	14,939,425	9,705,352	-	-	52,252	52,252	-	-	-	-	14,991,677	9,757,604
Total assets	368,239,592	376,902,612	3,204,675	3,968,372	653,674	690,402	1,196,571	1,344,291	608,012	-	373,902,524	382,905,677
Deferred outflows of resources	6,669,916	6,742,877	-	-	-	-	-	-	-	-	6,669,916	6,742,877
Total assets and deferred outflows of resources	$374,909,508	$383,645,489	$3,204,675	$3,968,372	$653,674	$690,402	$1,196,571	$1,344,291	$608,012	$ -	$380,572,440	$389,648,554

MIDLAND COUNTY HOSPITAL DISTRICT

Divisional Statements of Net Position

September 30, 2016 and 2015

	The District		Premier Family Care		Permian Cardiology, Inc.		Midland, Texas Orthopedic Group, Inc.		Midland Inpatient Medical Associates		Total	
Liabilities and Deferred Inflows of Resources	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**	**2016**	**2015**
Current liabilities:												
Accounts payable and accrued liabilities	$ 17,686,737	$ 23,673,311	$ 429,944	$ 537,928	$76,254	$ 95,206	$ 411,854	$ 227,294	$1,347,805	$ -	$ 19,952,594	$ 24,533,739
Accrued interest payable	2,007,838	1,761,880	-	-	-	-	-	-	-	-	2,007,838	1,761,880
Accrued payroll	8,213,597	9,536,979	1,059,923	941,468	218,209	247,814	62,699	30,260	232,979	-	9,787,407	10,756,521
Accrued self-insurance liabilities	2,718,167	2,066,032	-	-	-	-	-	-	-	-	2,718,167	2,066,032
Current maturities of general obligation bonds payable	1,727,750	2,605,000	-	-	-	-	-	-	-	-	1,727,750	2,605,000
Current maturities of long-term debt	15,218,536	12,059,067	23,141	32,374	-	-	-	-	-	-	15,241,677	12,091,441
Total current liabilities	47,572,625	51,702,269	1,513,008	1,511,770	294,463	343,020	474,553	257,554	1,580,784	-	51,435,433	53,814,613
Payable for pension obligation	26,346,100	27,909,512	-	-	-	-	-	-	-	-	26,346,100	27,909,512
Interest rate swap	1,237,011	1,509,889	-	-	-	-	-	-	-	-	1,237,011	1,509,889
Long-term debt and other liabilities	58,856,280	28,013,131	12,107	24,645	-	-	-	-	-	-	58,868,387	28,037,776
General obligation bonds payable	99,406,458	101,185,970	-	-	-	-	-	-	-	-	99,406,458	101,185,970
Total liabilities	233,418,474	210,320,771	1,525,115	1,536,415	294,463	343,020	474,553	257,554	1,580,784	-	237,293,389	212,457,760
Deferred inflows of resources	5,085,261	2,230,051	-	-	-	-	-	-	-	-	5,085,261	2,230,051
Net position												
Net investment in capital assets	103,396,944	109,251,612	-	-	-	-	-	-	-	-	103,396,944	109,251,612
Restricted - expendable for capital assets	10,923,926	12,907,215	-	-	-	-	-	-	-	-	10,923,926	12,907,215
Restricted - expendable for debt services	6,433,502	4,888,659	-	-	-	-	-	-	-	-	6,433,502	4,888,659
Unrestricted	15,651,401	44,047,181	1,679,560	2,431,957	359,211	347,382	722,018	1,086,737	(972,772)	-	17,439,418	47,913,257
Total net position	136,405,773	171,094,667	1,679,560	2,431,957	359,211	347,382	722,018	1,086,737	(972,772)	-	138,193,790	174,960,743
Total liabilities, deferred inflows of resources and net position	$374,909,508	$383,645,489	$3,204,675	$3,968,372	$653,674	$690,402	$1,196,571	$1,344,291	$ 608,012	$ -	$380,572,440	$389,648,554

MIDLAND COUNTY HOSPITAL DISTRICT

Divisional Schedule of Revenues, Expenses and Changes in Net Position

Years Ended September 30, 2016 and 2015

	The District		Premier Family Care		Permian Cardiology, Inc.		Midland, Texas Orthopedic Group, Inc.		Midland Inpatient Medical Associates		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Revenues:												
Net patient care revenues	$237,339,394	$236,806,445	$18,828,994	$18,777,551	$ 3,259,887	$ 3,030,809	$ 4,675,695	$ 5,434,992	$ 1,658,241	$ -	$265,762,211	$264,049,797
Other income	8,727,780	7,991,752	2,119,790	3,061,738	193,260	348,573	5,248	27,941	4,707,326	-	15,753,404	11,430,004
Total revenues	246,067,174	244,798,197	20,948,784	21,839,289	3,453,147	3,379,382	4,680,943	5,462,933	6,365,567	-	281,515,615	275,479,801
Expenses:												
Salaries and fringe benefits	129,660,162	125,180,815	14,751,858	13,916,701	5,008,255	4,972,763	5,034,182	4,976,184	1,722,714	-	156,177,171	149,046,463
Supplies	47,186,667	47,391,207	1,465,926	1,374,058	151,979	212,618	751,177	855,496	2,732	-	49,558,481	49,833,379
Other	39,576,437	45,232,926	5,119,569	5,621,630	867,384	696,077	1,018,328	1,166,649	5,612,893	-	52,194,611	52,717,282
Depreciation and amortization	21,813,745	20,968,178	341,479	332,073	25,000	28,492	180,680	206,665	-	-	22,360,904	21,535,408
Total expenses	238,237,011	238,773,126	21,678,832	21,244,462	6,052,618	5,909,950	6,984,367	7,204,994	7,338,339	-	280,291,167	273,132,532
Income (loss) from operations	7,830,163	6,025,071	(730,048)	594,827	(2,599,471)	(2,530,568)	(2,303,424)	(1,742,061)	(972,772)	-	1,224,448	2,347,269
Other nonoperating income and expense:												
Ad valorem tax support	27,590,399	25,890,764	-	-	-	-	-	-	-	-	27,590,399	25,890,764
Investment income	141,360	257,711	14	16	-	-	-	-	-	-	141,374	257,727
Other nonoperating income (loss)	(26,546,875)	(548,174)	(2,109,489)	(3,067,065)	-	-	50	(32,175)	(1,450,000)	-	(30,106,314)	(3,647,414)
Regional upper payment limit contributions	(25,481,122)	(17,908,008)	-	-	-	-	-	-	-	-	(25,481,122)	(17,908,008)
Transfers from (to) related entities	(8,090,000)	(6,850,196)	2,090,000	3,050,035	2,611,300	2,286,006	1,938,700	1,514,155	1,450,000	-	-	-
Interest on long-term debt	(6,719,656)	(5,977,307)	(2,874)	(6,085)	-	-	(45)	(280)	-	-	(6,722,575)	(5,983,672)
Total other nonoperating income (loss)	(39,105,894)	(5,135,210)	(22,349)	(23,099)	11,829	2,286,006	1,938,705	1,481,700	-	-	(34,578,238)	(1,390,603)
Income (loss) before distribution to other beneficial owners and capital grants and gifts	(31,275,731)	889,861	(752,397)	571,728	11,829	(244,562)	(364,719)	(260,361)	(972,772)	-	(33,353,790)	956,666
Distribution to other beneficial owners of partnership	(8,548,050)	(11,527,218)	-	-	-	-	-	-	-	-	(8,548,050)	(11,527,218)
Capital grants and gifts	5,134,887	478,580	-	-	-	-	-	-	-	-	5,134,887	478,580
Change in net position	(34,688,894)	(10,158,777)	(752,397)	571,728	11,829	(244,562)	(364,719)	(260,361)	(972,772)	-	(36,766,953)	(10,091,972)
Net position – beginning of year	171,094,667	181,253,444	2,431,957	1,860,229	347,382	591,944	1,086,737	1,347,098	-	-	174,960,743	185,052,715
Net position – end of year	$136,405,773	$171,094,667	$ 1,679,560	$ 2,431,957	$ 359,211	$ 347,382	$ 722,018	$ 1,086,737	$ (972,772)	$ -	$138,193,790	$174,960,743