

BIG BEND REGIONAL HOSPITAL DISTRICT
ANNUAL FINANCIAL REPORT
WITH
INDEPENDENT AUDITOR'S REPORTS THEREON
FOR THE YEAR ENDED SEPTEMBER 30, 2016

BIG BEND REGIONAL HOSPITAL DISTRICT

ANNUAL FINANCIAL REPORT

FOR THE YEAR ENDED SEPTEMBER 30, 2016

Table of Contents

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis	3
Basic Financial Statements:	7
Combined Statement of Net Position and General Fund Balance Sheet	8
Combined Statement of Activities and General Fund - Statement of Revenue, Expenditures and Changes in Fund Balance	9
Notes to the Financial Statements	10
Required Supplementary Information	20
Statement of Revenue, Expenditures and Changes in Fund Balance - Budget and Actual - General Fund	21
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	22
Schedule of Findings and Questioned Costs	24

Independent Auditor's Report

To the Board of Directors
Big Bend Regional Hospital District, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and general fund information of Big Bend Regional Hospital District, as of and for the year ended September 30, 2016, and the related notes to the 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 an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Big Bend Regional Hospital District, as of September 30, 2016, and the changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

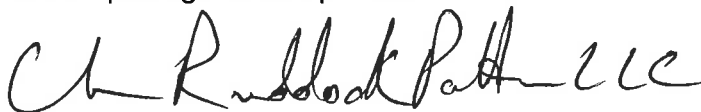
Other Matters

Required Supplemental Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 3 through 6 and 20 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated April 14, 2017, on our consideration of the Big Bend Regional Hospital District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Big Bend Regional Hospital District's internal control over financial reporting and compliance.



El Paso, Texas
April 14, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2016

The purpose of Big Bend Regional Hospital District (District) is to provide funds to pay for health care for indigent residents of Brewster and Presidio County, Texas. Management's discussion and analysis provides a narrative overview of the financial activities and changes in the financial position of the District for the fiscal year ended September 30, 2016. Readers should use the notes included in the financial statements of the Hospital District along with this information. In accordance with the guidelines of the Governmental Accounting Standards Board Statement No. 34 *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, this analysis includes, when available, comparative analysis of relevant data from the previous year.

Overview of the Financial Statements

This area of the discussion and analysis is merely intended to serve as an introduction for the District's financial statements.

The District is a special purpose government which engages in a single governmental program; therefore, the District only has one governmental fund (the general fund). The District has elected to combine the presentation of the government-wide financial statements and the fund financial statements. The column entitled "Reconciliation Between General Fund and Governmental Activities" reconciles individual line items of fund financial data to government-wide data.

The first statement is the Combined Statement of Net Position and General Fund Balance Sheet. The column entitled "Statement of Net Position" reports the District's year-end position on September 30, 2016, based on the accrual method of accounting which records all of the District's assets and liabilities, with the difference between the two reported as net position. Changes in net position reflect the overall health of the District and over time may serve as a useful indicator of whether the District is improving or deteriorating financially. The Statement of Net Position column presents a longer-term view of the District's finances.

The column entitled "General Fund Balance Sheet" provides a detailed short-term view of the District's single operation based on the modified accrual method of accounting. The fund balance represents the expendable resources available at the end of the fiscal year.

The following statement is the Combined Statement of Activities and General Fund Statement of Revenues, Expenditures, and Changes in Fund Balance and reflects the District's activities for the year ended September 30, 2016. The column entitled "Governmental Activities" presents information on how the District's net position changed during the fiscal year. All changes in net position are reported as soon as the underlying event occurs, regardless of the timing of cash flows. Thus, revenues and expenses are reported in this statement for some items that will result in cash flows in future fiscal periods (e.g. uncollected taxes).

The column entitled "General Fund" provides a detailed short-term view of the District's single operation by presenting the inflows (revenue) and outflows (expenditures) of expendable resources.

These reports are followed by the Notes to Financial Statements, explaining in further detail areas such as accounting policies, capital assets, property taxes, commitments and contingencies.

The Statement of Revenue, Expenditures and Changes in Fund Balance – Budget and Actual reflects the adopted and amended budget and compares the amended budget to actual expenditures. The report shows how effective the District has been in the past twelve months adhering to budgeted expenditures.

Government- Wide Financial Analysis

As of September 30, 2016, the total assets of Big Bend Regional Hospital District were \$3,272,674. Cash makes up 94% or \$3,089,033 of total assets. Capital assets, net of accumulated depreciation, make up 3% of total assets. Property taxes receivable net of allowance make up 3% of total assets.

Total net position (total assets less total liabilities) as of September 30, 2016 was \$3,266,850. Of this amount, 97% is unrestricted and 3% is invested in capital assets.

As of September 30, 2016, tax receipts make up 97% of revenue, or \$1,402,297 of \$1,453,636. The major expenses of the District include Indigent Care (33%), Medical Enhancement (13%), Salaries and Related Costs (14%), and Hospital Building Repair (16.4%).

Financial Analysis of the Government's Funds

At the end of fiscal year 2016, the ending general fund balance was \$3,105,435. This is a decrease of \$846,924, or 21% of the prior year fund balance. The District increased expenditures for medical enhancement project grants to assist eligible entities to improve medical related services to the District's indigent population as well as to the general population of the two counties. Additionally, the District authorized the expenditure of funds from prior year retained earnings to invest in improvements in Hospital infrastructure and equipment, which was an investment in property that through the lease agreement would return to the District with the hospital building at the end of the lease. The prior year saw an increase in fund balance of approximately \$178,526 and the year before that increased approximately \$319,457.

The District's major source of revenue comes from property taxes. The payments received from property taxes make up 97% of revenue in FY 2016. The remaining revenue results from interest earned on a savings deposit type accounts, the State's tobacco settlement, and grants.

Total expenditures in fiscal year 2016 increased by approximately 99% or \$1,115,371. In addition to the improvements in medical infrastructure at the hospital, the District made one time increases in expenditures to improve and streamline the record keeping processes for qualifying applicants for the District's healthcare plan. These improvements were also necessary so that the District would be in compliance with HIPAA regulations related to medical record security. The District additionally added the necessary ancillary services and equipment to improve the application processes so that better controls could be applied to ensure that only qualified applicants were included into the program.

General Fund Budgetary Highlights

In addition to the basic financial statements and accompanying notes, the report also presents the budgetary comparison schedule that reflects the adopted and amended budget and compares the amended budget to actual expenses. The report shows how effective the District has been in the past fiscal period adhering to the budgeted expenses. The original budget had amendments primarily to reallocate and increase project funding. The following was the most significant variance:

- Medical Enhancement Projects – resulted in favorable variance of \$172,602. The District increased budgeted expenditures for medical enhancement project grants to assist eligible entities to improve medical related services to the District's indigent population as well as to the general population of the two counties. However, due to the timing of the grant approval, the payment was unable to be funded until after October 1, 2016. Although the funds were allocated and approved in fiscal year 2016, the actual expense will be in fiscal year 2017.

In the end, all revenues and expenditures resulted in an overall favorable variance of \$453,987.

Next Year's Budgets and Rates

For fiscal year 2016-2017, the District adopted an operating budget of \$1,639,815. To support the budget for fiscal year 2016-2017 the board adopted a total tax rate of \$0.1275 per \$100.00 of assessed property valuation.

Contacting the District's Financial Manager

This financial report is designed to provide the residents of Brewster and Presidio Counties with a general overview of the District's finances and to demonstrate the District's accountability for the property tax payments received. If you have questions about this report or need additional financial information, please visit www.bbrhd.com or contact the Big Bend Regional Hospital District, P.O. Box 1439, Alpine, TX 79831 and attention to the Financial Officer.

BASIC FINANCIAL STATEMENTS

BIG BEND REGIONAL HOSPITAL DISTRICT
 COMBINED STATEMENT OF NET POSITION AND GENERAL FUND BALANCE SHEET
 SEPTEMBER 30, 2016

	General Fund Balance Sheet	Reconciliation Between General Fund and Governmental Activities	Statement of Net Postion
ASSETS			
Current Assets:			
Cash	\$ 3,089,033	-	\$ 3,089,033
Property tax receivable	333,716	-	333,716
Allowance for uncollectible taxes	(250,060)	-	(250,060)
Prepaid expenses	8,364	-	8,364
Noncurrent Assets:			
Capital assets	-	210,712	210,712
Accumulated depreciation	-	(119,091)	(119,091)
Total Assets	\$ 3,181,053	\$ 91,621	\$ 3,272,674
LIABILITIES			
Current Liabilities:			
Accrued expenses	5,824	-	5,824
Total Liabilites	5,824	-	5,824
Deferred Inflows of Resources:			
Unavailable revenue - Property taxes	69,794	(69,794)	-
Total Deferred Inflows of Resources	69,794	(69,794)	-
FUND BALANCE / NET POSITION			
Investment in capital assets	-	91,621	91,621
Committed:			
Medical Enhancements Project	265,500	(265,500)	-
			-
Unassigned / Unrestricted	2,839,935	335,294	3,175,229
Total Fund Balance / Net Position	3,105,435	161,415	3,266,850
Total Liabilities, Deferred Inflows & Equity	\$ 3,181,053	\$ 91,621	\$ 3,272,674

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

BIG BEND REGIONAL HOSPITAL DISTRICT
 COMBINED STATEMENT OF ACTIVITIES AND GENERAL FUND
 STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE
 YEAR ENDED SEPTEMBER 30, 2016

	Reconciliation Between General Fund and		
	General Fund	Governmental Activities	Governmental Activities
Revenues:			
Property tax	\$ 1,411,124	(8,827)	\$ 1,402,297
Tobacco settlement	20,435	-	20,435
Grant Revenue	25,000		25,000
Other	5,904	-	5,904
Total revenues	<u>1,462,463</u>	<u>(8,827)</u>	<u>1,453,636</u>
Expenditures/Expenses:			
Hospital Building Repair	380,187	-	380,187
Indigent care - administrative fee	73,210	-	73,210
Indigent care - IHS software	19,156	-	19,156
Indigent care - Claims FY16	773,755	-	773,755
Insurance	8,267	-	8,267
Legal and accounting	45,483	-	45,483
Medical enhancement Projects	292,398	-	292,398
Office	57,278	-	57,278
Rent and utilities	36,857	-	36,857
Repairs and maintenance	41,624	-	41,624
Salaries and related costs	324,352	-	324,352
Scholarships	28,700	-	28,700
Tax collection and appraisal fees	90,288	-	90,288
Tobacco settlement distributions	83,166	-	83,166
Travel and mileage	39,153	-	39,153
Other	15,513	-	15,513
Depreciation	-	7,165	7,165
Total expenditures/expenses	<u>2,309,387</u>	<u>7,165</u>	<u>2,316,552</u>
Excess of revenue over expenditures	(846,924)	(15,992)	(862,916)
Fund balance/net position:			
Beginning of year	3,952,359	177,407	4,129,766
End of year	<u>\$ 3,105,435</u>	<u>\$ 161,415</u>	<u>\$ 3,266,850</u>

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

BIG BEND REGIONAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Big Bend Regional Hospital District (District) is a hospital district created by an Act of the State of Texas. The District is a governmental organization and, as dictated by State law, is responsible for the health care of indigent residents of Brewster and Presidio Counties, which is funded by an ad valorem tax on real and personal property within its jurisdiction.

Reporting Entity

The District is governed by a board comprised of 5 individuals who are elected by the voters of the counties for staggered 4 year terms. The District is not considered to be a component unit of another entity, and these financial statements do not include any other entities as component units of the District.

Government-Wide, Fund Financial Statements, and Financial Statement Presentation

The District is a special purpose government which engages in a single-governmental program; therefore, the District only has one of the three fund categories (governmental, proprietary, and fiduciary) which is a governmental fund titled the General Fund.

The District follows Government Accounting Standards Board Statement Number 34, and related pronouncements, which requires the District's election to combine the presentation of the government-wide financial statements and the fund financial statements.

The Statement of Net Position and the Statement of Activities are government-wide financial statements. The column entitled "Governmental Activities" on the combined Statement of Net Position and General Fund Balance Sheet serves as the Statement of Net Position. The same entitlement on the Combined Statement of Activities and General Fund Statement of Revenue, Expenditures and Changes in Fund Balance serves as the Statement of Activities.

The General Fund Balance Sheet (column entitled "General Fund") and Statement of Revenue, Expenditures, and Changes in Fund Balance (column entitled "General Fund") financial statements provide reports on the financial condition and results of operations for the governmental fund category.

The column entitled "Reconciliation Between General Fund and Governmental Activities" reconciles individual line items of fund financial data to government-wide data.

(Continued)

BIG BEND REGIONAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus and Basis of Accounting

The government-wide financial statements (Governmental Activities) use the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows.

In addition to assets, the statement of net position reports a separate section for deferred outflows of resources. This separate financial statement category represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until that time.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement category represents 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.

Governmental fund financial statements (General Fund) use the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets, current liabilities and fund balances are included on the balance sheet. Operating statements of these funds present net increases and decreases in current assets (i.e., revenues and other financing sources and expenditures and other financing uses).

The modified accrual basis of accounting recognizes revenues in the accounting period in which they become both measurable and available, and it recognizes expenditures in the accounting period in which the fund liability is incurred, if measurable, except for unmatured interest and principal on long-term debt, which is recognized when due, which is not applicable to the District.

Fund Accounting

A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. Resources are accounted for in individual funds based upon the purposes for which they are to be spent and the restrictions, if any, on the spending activities.

Governmental Funds are those through which most governmental functions of the District are financed. The acquisition, use, and balances of the District's expendable financial resources and the related liabilities are accounted for through governmental fund types. The measurement focus is upon determination of changes in financial position, rather than upon net income determination. The only governmental fund type used by the District is the General Fund. The general operating fund of the District accounts for all financial resources of the District that are not required to be accounted for in the special revenue funds.

(Continued)

BIG BEND REGIONAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Balance Reporting and Governmental Fund Type Definitions

Fund Equity - In accordance with GASB, the following classifications are used to describe the relative strength of the spending constraints:

- **Nonspendable fund balance** - Represents amounts that are not in spendable form, such as inventory, or required to be maintained intact.
- **Restricted fund balance** - Represents amounts constrained to specific purposes by their providers, such as grantors, bondholders, and higher levels of government, through constitutional provisions, or by enabling legislation.
- **Committed fund balance** - Represents amounts constrained to specific purposes by the District itself, using its highest level of decision-making authority, i.e., Board of Directors. To be reported as committed, amounts cannot be used for any other purpose unless the District's Board approves the changes by Board Resolution.
- **Assigned fund balance** - Represents amount the District intends to use for a specific purpose.
- **Unassigned fund balance** - Represents amounts that are available for any purpose.

Order of Expenditure - When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the Board has provided otherwise in its budget or its commitment or assignment actions.

Net Position - Net Position on the Statement of Net Position includes the following:

- **Investment in capital assets** - this component of net position consists of capital assets, net of accumulated depreciation.
- **Restricted** - this component of net position consists of restricted assets reduced by liabilities related to those assets.
- **Unrestricted net position** - this component of net position is the net amount of assets and liabilities that are not included in the determination of the other categories described above.

(Continued)

BIG BEND REGIONAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Accounting Policies

Deposits and Investments - The funds of the District must be deposited and invested under the terms of a contract, contents of which are set out in the Depository Contract Law. The depository bank places approved pledged securities for safekeeping and trust with the District's agent bank in an amount sufficient to protect District funds during the period of the contract. The pledge of approved securities is waived only to the extent of the depository bank's dollar amount of Federal Deposit Insurance Corporation ("FDIC") insurance.

The **Public Funds Investment Act** (Government Code Chapter 2256) contains specific provisions in the areas of investment practices, management reports and establishment of appropriate policies. Among other things, it requires the District to adopt, implement, and publicize an investment policy. That policy must address the following areas: (1) safety of principal and liquidity, (2) portfolio diversification, (3) allowable investments, (4) acceptable risk levels, (5) expected rates of return, (6) maximum allowable stated maturity of portfolio investments, (7) maximum average dollar-weighted maturity allowed based on the stated maturity date for the portfolio, (8) investment staff quality and capabilities, (9) and bid solicitation preferences for certificates of deposit. Statutes authorize the District to invest in (1) obligations of the U.S. Treasury, certain U.S. agencies, and the State of Texas; (2) certificates of deposit, (3) certain municipal securities, (4) money market savings accounts, (5) repurchase agreements, (6) bankers acceptances, (7) Mutual Funds, (8) Investment pools, (9) guaranteed investment contracts, (10) and common trust funds. The Act also requires the District to have independent auditors perform test procedures related to investment practices as provided by the Act. Although the District did not have any investments at year end, the District has implemented and publicized its investment policy and is in substantial compliance with the requirements of the Act and with local policies.

Custodial Credit Risk for Deposits - State law requires governmental entities to contract with financial institutions in which funds will be deposited to secure those deposits with insurance or pledged securities with a fair value equaling or exceeding the amount on deposit at the end of each business day. The pledged securities must be in the name of the governmental entity and held by the entity or its agent. Since the District complies with this law, it has no custodial credit risk for deposits.

Capital Assets - Purchased property, plant and equipment are carried at cost and include costs of improvements and betterments, which substantially increase the useful lives of existing plant and equipment. Maintenance, repairs and minor renewals are expensed as incurred. When properties are retired, the related cost and accumulated depreciation are removed from the respective accounts and any profit or loss is credited or charged to income. Donated assets are recorded at fair value on the date of donation.

(Continued)

BIG BEND REGIONAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

The District provides for depreciation of property, plant, and equipment by the straight-line method and at rates designed to amortize the costs over their estimated useful economic lives as follows:

Land Improvements	15 to 20 years
Buildings and Components	5 to 50 years
Fixed Equipment	7 to 25 years
Furniture and Fixtures	3 to 20 years

Tax Revenue - Property taxes are levied by October 1 on the assessed value listed as of the prior January 1 for all real and business personal property located in the District in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 31 of each year, a tax lien attaches to the property to secure the payment of all taxes, penalties, and interest ultimately imposed. Property tax revenues are considered available (1) when they become due or past due and receivable within the current period and (2) when they are expected to be collected during a 60-day period after the close of the school fiscal year. A provision for uncollectible taxes is provided based upon historical trends.

Use of Estimates - Preparation of Big Bend Regional Hospital District's financial statements, in conformity with generally accepted accounting principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Actual results could differ from those estimates.

Budgetary Data - The budget for the District has been adopted essentially on a modified cash basis. As a result, capital outlay items and principal payment on debt are treated as expenses. Also, accounts payable at year end are considered to be obligated during the fiscal year in which they are incurred and are included in expenses in the "budget and actual comparisons" for the fiscal year.

All annual appropriations lapse at year end and encumbrance accounting is not used.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

1. Prior to September 1, the budget committee submits to the Board a proposed operating budget for the fiscal year commencing on October 1. The operating budget includes proposed expenses and the means of financing them.

(Continued)

BIG BEND REGIONAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

- 2. Public hearings are conducted by the District to obtain comments. Then the budget is submitted to the board for their approval.
- 3. Prior to October 1, the Board legally adopts the fiscal year budget.

Federal Income Taxes - The District is a governmental entity and is qualified as a tax-exempt organization. Consequently, no provision has been provided for income taxes in the accompanying financial statements.

2. DEPOSITS

DEPOSITS WITH FINANCIAL INSTITUTIONS

All deposits were with West Texas National Bank and Marfa National Bank in interest bearing accounts. The accounts were secured at September 30, 2016 by FDIC coverage, an irrevocable standby letter of credit provided by Federal Home Loan Bank of Dallas, and by pledged securities, also held by Federal Home Loan Bank, in the name of the depository bank and pledged to the District. Although the pledged securities are not in the name of the District, the deposits were deemed collateralized under Texas law.

The security at September 30, 2016 was as follows:

Checking and Money Market Bank Balances:	
WTNB	\$ 3,140,623
MNB	5,051
Total	<u>\$ 3,145,674</u>
FDIC Coverage:	
WTNB	\$ 250,000
MNB	250,000
WTNB - Irrevocable Standby Letter of Credit maturing January 31, 2019	3,000,000
MNB - Securities Pledged, but not in the District's name	<u>1,284,262</u>
Total Security for Deposits	<u>\$ 4,784,262</u>

The difference between book and bank balances was \$56,641 and represents items in transit at year-end, usually outstanding checks that clear in the following month.

(Continued)

BIG BEND REGIONAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

3. CAPITAL ASSETS

The following is a summary of property, plant and equipment at cost, less accumulated depreciation as of September 30:

	2015	Changes	2016
Land	\$ 81,000	\$ -	\$ 81,000
Furniture and Fixtures	28,887	-	28,887
Marfa Rural Health Clinic	100,825	-	100,825
Total property, plant and equipment	210,712	-	210,712
Less accumulated depreciation	(111,926)	(7,165)	(119,091)
Net Book Value	<u>\$ 98,786</u>	<u>\$ (7,165)</u>	<u>\$ 91,621</u>

Depreciation expense for the year ended September 30, 2016 was \$7,165.

4. AD VALOREM TAXES

Property taxes are levied on October 1 of each year, in conformity with the Texas Property Tax Code. Taxes are due upon receipt of the tax statement and become delinquent if not paid before February 1 of the following year. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed. The tax rate for the year ended September 30, 2016 was \$.1215 per \$100 valuation.

Property taxes receivable consisted of the following at September 30, 2016:

Current taxes receivable	\$ 61,123
Delinquent taxes receivable	<u>272,593</u>
	<u>\$ 333,716</u>
Delinquent taxes by fiscal year:	
2015	49,504
2014	25,218
2013	20,890
2012	18,085
2011	16,845
2010 and prior	<u>142,051</u>
	<u>\$ 272,593</u>

(Continued)

BIG BEND REGIONAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

5. FUND BALANCES

As of September 30, 2016, fund balances were composed of the following:

Committed:	
Medical Enhancements Project	\$ 265,500
Unassigned	<u>2,839,935</u>
Total	<u>\$ 3,105,435</u>

6. COMMITMENTS AND CONTINGENCIES

Long-term Lease and Development Agreement - Effective August 7, 1997, the District entered into an agreement with a private, for-profit corporation Community Health Systems (CHS). The District acquired 15 acres of useable property, which it then loaned to CHS for a 30-year term with an automatic renewal of two successive 10-year periods. CHS constructed a new hospital facility on the leased property and the District assigned its operations, working capital, and medical related equipment to CHS on October 1, 1999.

Upon termination of the lease, the leased property, improvements thereon, and working capital as of September 30, 1999 will be turned over to the District. The following table sets forth information provided by CHS related to the hospital facility.

Building, Improvements & Equipment	\$ 19,028,759
Accumulated Depreciation	<u>(9,315,312)</u>
Net Book Value	<u>\$ 9,713,447</u>

The cost basis in just the building and improvements, not including equipment, as of September 30, 2016 was reported as \$11,289,805.

(Continued)

BIG BEND REGIONAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

6. COMMITMENTS AND CONTINGENCIES (Continued)

Indigent Care - The previous indigent care agreement between the District and Big Bend Regional Medical Center (BBRMC) has been terminated. BBRMC has voluntarily assumed the financial obligations arising from the provision of certain health care services to indigents who receive such health care services occurring in the Alpine hospital. The District remains financially responsible for the payment for health care services to the District's indigents excluding those performed by the hospital and the doctors of the Timberland Group, a company wholly owned by the BBRMC. Each patient must meet eligibility requirements before receiving benefits of \$30,000 or 30 days in-patient care, known as the 30/30 rule according to Chapter 61 of the County Indigent Program code.

Effective October 1, 2014, the District began processing indigent eligibility applications internally, which was previously performed by BBRMC. The District hired and trained additional personnel to support these activities.

In addition, the District has voluntarily transferred public funds to the State to constitute the State share of the 1115 Waiver Uncompensated Care payments and the District intends to do so in the future. The transfer of local funds is made through an Inter-Governmental Transfer (IGT). The 1115 Waiver Uncompensated Care contributions for the year ended September 30, 2016 totaled \$340,225 and were charged to the Indigent Care Claims expenditure account.

Office Building Lease - Effective November 14, 2015 the District renewed its lease for office facilities for a term of one year for \$1,210 per month. Also included in the District's lease is the use of additional office space at a cost of \$515 per month. The District renewed the lease effective November 14, 2016, for an additional year at a rate of \$1,220 and \$520 for the office and additional office space, respectively.

Administrative Services Agreement - On July 1, 2009, Boon-Chapman Benefit Administrators, Inc. (TPA) and the District agreed for TPA to provide certain administrative services to the Indigent Health Care Assistance Program. TPA, at its own cost and expense, maintains and operates the facilities and personnel necessary to provide its services under this Agreement. Services provided include providing information concerning Plan eligibility and benefits to all participants, beneficiaries, and health care providers in order to administer claims in accordance with the terms of the Plan. Fees payable by the District to TPA for the services rendered include a \$24 per month per eligible client fee, and subrogation services at 25% of any recovery. These fees are due within 45 days of invoicing by TPA.

Further, TPA provides managed care services consisting of a system of prospective and retrospective review of the medical necessity, cost and/or appropriateness of health and behavioral care services, medical/surgical utilization review, case management; maintains a network of provider organizations, prepares written reports for claims appeal review services, provides financial agreements and reports. For the year ended September 30, 2016 the District paid \$73,210 for these administrative services.

(Continued)

BIG BEND REGIONAL HOSPITAL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

SEPTEMBER 30, 2016

6. COMMITMENTS AND CONTINGENCIES (Continued)

On July 2012, the District received a notice from the State's Medicaid contractor regarding amounts allegedly owed to the Texas Medicaid program as a result of prior Medicaid payments to Big Bend Regional Medical Center, some going back as far as 1983. The District has asked the State's contractor to produce additional information regarding these claims.

At this time, the District does not have enough information regarding these claims in order to make a payment determination. The District will reimburse the State's Medicaid program once its liability is confirmed. This reimbursement could total up to approximately \$79,000. However, the District believes it has contractual indemnity rights from Big Bend Hospital Corporation for the bulk of such claims. The District has put the Corporation on notice of such claims.

Marfa Meds Project - On December 17, 2013 the District approved the reopening of the Marfa Meds Project. The continuation of the Marfa Meds Project is contingent upon the opening of a pharmacy in Marfa. If a pharmacy is opened in Marfa, the Marfa Meds Project will be closed and the remaining cash balance will be reimbursed to the two granting entities.

7. RISK MANAGEMENT

The District is exposed to various risks of losses related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The District maintains insurance policies acquired from independent insurance carriers covering general liability, and errors and omissions. The District remains exposed to any losses that exceed the resources and commercial insurance of the association. As of September 30, 2016, no claims or losses have been incurred that were not covered by insurance. Management is aware of no liability due to any claim or suit.

8. RELATED PARTY TRANSACTIONS

Management is not aware of any significant related party transactions during the 2015-2016 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

BIG BEND REGIONAL HOSPITAL DISTRICT
STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCE - BUDGET AND ACTUAL
GENERAL FUND
YEAR ENDED SEPTEMBER 30, 2016

	Budgets		Actual Amounts	Variance
	Original	Final		
Revenues:				
Property tax	\$ 1,329,467	\$ 1,364,667	\$ 1,411,124	\$ 46,457
Tobacco settlement	23,000	23,000	20,435	(2,565)
Grants	-	25,000	25,000	
Other	6,000	6,000	5,904	(96)
Total revenues	<u>1,358,467</u>	<u>1,418,667</u>	<u>1,462,463</u>	<u>43,796</u>
Expenditures/Expenses:				
Hospital Building Repair	-	380,000	380,187	(187)
Indigent care - Administrative fee	65,000	87,000	73,210	13,790
Indigent care - IHS software	16,000	20,000	19,156	844
Indigent care - Care Claims FY 2016	510,000	910,000	773,755	136,245
Insurance	9,040	13,240	8,267	4,973
Legal and accounting	56,500	46,500	45,483	1,017
Medical enhancement projects	150,000	465,000	292,398	172,602
Travel and mileage	17,000	37,000	39,153	(2,153)
Office (+ contract labor)	41,165	62,165	57,278	4,887
Rent and utilities	41,100	43,100	36,857	6,243
Repairs and maintenance	22,000	23,500	41,624	(18,124)
Salaries and related costs	280,669	306,869	324,352	(17,483)
Scholarships	30,000	43,000	28,700	14,300
Tax collection and appraisal fees	86,700	91,000	90,288	712
Tobacco settlement distributions	23,000	215,500	83,166	132,334
Other (training,)	9,500	19,500	15,513	3,987
Total expenditures/expenses	<u>1,357,674</u>	<u>2,763,374</u>	<u>2,309,387</u>	<u>453,987</u>
Excess of revenue over expenditures	793	(1,344,707)	(846,924)	<u>\$ 497,783</u>
Fund balance/net position:				
Beginning of year	<u>3,952,359</u>	<u>3,952,359</u>	<u>3,952,359</u>	
End of year	<u>\$ 3,953,152</u>	<u>\$ 2,607,652</u>	<u>\$ 3,105,435</u>	

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Directors
Big Bend Regional Hospital District

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Big Bend Regional Hospital District as of and for the year ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated April 14, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Big Bend Regional Hospital District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Big Bend Regional Hospital District's internal control. Accordingly, we do not express an opinion on the effectiveness of Big Bend Regional Hospital District's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Big Bend Regional Hospital District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements; noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "C. R. Ruddock, P.A. LLC". The signature is written in a cursive, flowing style.

El Paso, Texas
April 14, 2017

BIG BEND REGIONAL HOSPITAL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SEPTEMBER 30, 2016

Schedule Reference Number	Program	Description
<u>SUMMARY OF AUDITOR'S RESULTS</u>		
<u>Financial Statements</u>		
	Type of Auditor's Report issued on whether the financial statements were prepared in accordance with GAAP:	Unmodified
	Internal Control over financial reporting:	
	Were significant deficiencies in internal control disclosed?	None reported
	Were material weaknesses in internal control disclosed?	No
	Was any noncompliance disclosed that is material to the financial statements of the auditee, which would be required to be reported in accordance with Government Auditing Standards?	No