

ANGLETON-DANBURY HOSPITAL DISTRICT

FINANCIAL STATEMENTS

SEPTEMBER 30, 2017

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Angleton-Danbury Hospital District
Angleton, Texas

We have audited the accompanying statements of net position of the unrestricted fund and bond interest and sinking fund of Angleton-Danbury Hospital District (the District) as of September 30, 2017 and the related statements of operations, changes in net position, and cash flows of the unrestricted fund and changes in net position of the bond interest and sinking fund for the year then ended and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

The District's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free of 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. 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 evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risk 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 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 internal controls. 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 Angleton-Danbury Hospital District as of September 30, 2017 and the changes in net position and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States.

Report on Supplemental Information

Generally accepted accounting principles in the United States require that the management's discussion and analysis on pages 4 through 7 be presented to supplement the 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 the financial reporting for placing the 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, which consisted of inquiries of management about the methods of preparing information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the 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.

Emphasis of Matter

As discussed in Note H, on August 16, 2014 the Angleton-Danbury Hospital District leased the hospital to The University of Texas Medical Branch in Galveston (UTMB). On that date all operations transferred to UTMB and the District's operations were reduced to leasing its facilities to UTMB.

Harper & Pearson Company, P.C.

Houston, Texas
February 22, 2018



ANGLETON-DANBURY HOSPITAL DISTRICT

Management's Discussion and Analysis
For the Fiscal Year Ended September 30, 2017
(Unaudited)

This section of the District's annual financial report provides a narrative overview and analysis of the District's financial activities for the fiscal year ended September 30, 2017. This information is to be considered alongside that in the District's financial statements including notes.

Financial Highlights

On August 16, 2014, the Angleton-Danbury Hospital District (the District) Board of Directors entered into a lease agreement with the University of Texas Medical Branch at Galveston (UTMB) to operate the facility. Details regarding the terms and conditions of the lease can be found in Note H. The financial statements for the fiscal year ending September 30, 2017 reflect the activities of the District which consisted principally of collection of District taxes, payments for indigent care services provided by UTMB during the year, and administrative expenses. The District has chosen to not include comparative financial statements. Comparative statements may be included in the future.

Unrestricted cash and investments in the unrestricted fund decreased from \$14,432,841 at the end of fiscal year 2016 to \$14,366,134 at the end of the fiscal year 2017, a decrease of \$66,707 or .5%. The single largest factor causing the decrease was the end of the receipt of disproportionate share funds related to prior years (\$202,000 in 2016) and an increase in indigent care expenses of \$116,000.

The District's Board of Directors adopted a self-funded workers compensation liability protection plan in 2003. The District did not pay any claims during the fiscal year ending September 30, 2017 related to this plan.

The District collected \$5,770,636 on a total tax rate of \$0.302817 per \$100 of valuation in 2017. This is an increase of \$68,341 over the \$5,702,295 collected in 2016. The District's taxable values increased by 7.7% from 2016 to 2017. Management expects valuations to rise in 2018 due to the District's geographic proximity to a rapidly growing area located just south of the Houston metropolitan area. It should be noted that the tax rate is still well below the District's maximum allowable tax rate of \$.75 per \$100 of valuation.

The District's administrative expenses continue to decrease as a result of the lease to UTMB. Total expenses for 2017 were \$6,726,899. The majority of expenses were related to indigent care costs and depreciation of the District's capital assets.

Overview of the Financial Statements

The financial statements presented herein include all of the activities of the District using the reporting model as prescribed by the Government Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*. The basic financial statements also include notes to explain and provide further detail on the material presented in the financial statements.

The District has only business-type activities which consist of the leasing of the hospital facilities. This is reported as a single proprietary fund and accounts for activities essentially as they would be accounted for by a business operating in the private sector.

Financial Analysis

Statement of Net Position

The chart below illustrates the net position of the general fund as of September 30, 2017. Net position over time may serve as a useful indicator of the District's financial position. During fiscal year 2017 the District's financial position decreased by \$686,865 from the previous fiscal year for the reasons enumerated in the financial highlights section.

	<u>2017</u>
ASSETS	
Current and Other Assets	\$ 14,675,369
Capital Assets	<u>19,850,598</u>
Total Assets	<u>\$ 34,525,967</u>
LIABILITIES	
Claims/Accounts Payable	\$ 577,628
Bonds and Note Payable	<u>7,810,000</u>
Total Liabilities	<u>\$ 8,387,628</u>
NET POSITION	
Invested in Capital Assets	\$ 12,040,598
Unrestricted	<u>14,097,741</u>
Total Net Position	<u>\$ 26,138,339</u>

Summary of Revenues, Expenses and Changes in Net Position

The District's net position of the unrestricted fund decreased as a result of operations during fiscal year 2017 by \$686,865. A summary of revenues and expenses for fiscal year 2017 is provided below:

	<u>2017</u>
<u>REVENUES</u>	
General:	
Ad valorem taxes	\$ 5,770,636
Interest and other	(131,799)
Program:	
Other revenue	<u>401,197</u>
Total Revenues	<u>6,040,034</u>
<u>EXPENSES</u>	
Total Expenses	<u>6,726,899</u>
Decrease in net position	(686,865)
Net position-beginning	<u>26,825,204</u>
Net position-ending	<u>\$ 26,138,339</u>

Capital Assets at Year End (net of accumulated depreciation)

	<u>2017</u>
Land	\$ 643,000
Land improvements	75,279
Buildings and fixed equipment	15,684,620
Professional office buildings and fixed equipment	603,274
Wellness Center	501,403
Equipment, furniture and fixtures	<u>2,343,022</u>
	<u>\$ 19,850,598</u>

The District did not make any additions during the year ended September 30, 2017.

Additional information on the District's capital assets can be found in Footnote B, page 16 of this report.

Debt

At year-end, the District had \$7,810,000 in Hospital Improvement Refunding bonds outstanding as compared to \$9,000,000 at the end of the prior fiscal year, a decrease of 13.2%.

The District's Standard & Poor's rating improved from "BBB" to "A-" with a "stable" outlook for the future.

Additional information on the District's long-term debt can be found in footnote C, pages 17-18 of this report.

Economic Factors

Management's outlook for the future is bright. As the District is no longer operating the hospital and associated healthcare services, the inherent financial volatility has been removed. The District will continue to levy taxes for the purposes of servicing the outstanding debt, addressing the District's indigent care obligations, and paying for other relatively minor expenses incurred by the District. Management expects that the District will retain sufficient reserves to enable it to function under the current arrangement through the term of the lease.

Regarding general economic conditions, Brazoria County has one of the largest concentrations of petrochemical plants in the world. Since 2013, numerous projects totaling \$27.3 billion in new capital investment have either been completed or are scheduled to be finished by 2019. These projects are estimated to bring 6,811 new jobs (both direct and indirect) to the area. Three additional projects have been recently announced with a total expected capital investment of \$3.25 billion with direct and indirect new jobs totaling 389. While only a few of the above new petrochemical plants are located within the boundaries of the District, because Angleton serves as a "bedroom community" to the petrochemical industry, growth is almost certain to occur in both housing and retail development.

In conclusion, the District adopted an operating budget in August of 2017 that contains a projected net loss of \$110,137. It should be noted that the loss includes forecasted depreciation of \$1,760,975. As stated previously, the District expects to continue to manage cash at sufficient levels. While the budget was adopted 6 months prior to the writing of this report, management continues to believe that the budget accurately reflects the District's likely fiscal 2018 financial performance.

Financial Contact

The District's financial statements are designed to present users with a general overview of the District's finances and to demonstrate the District's accountability for money it receives. Should you have questions about this report or need additional financial information, contact the District's Chief Financial Officer at 132 Hospital Drive, Angleton, Texas 77515 or call 979-848-9103.

ANGLETON-DANBURY HOSPITAL DISTRICT
STATEMENT OF NET POSITION - UNRESTRICTED FUND
SEPTEMBER 30, 2017

ASSETS

CURRENT ASSETS

Cash and equivalents	\$ 4,720,836
Other receivables	10,650
Investments	9,645,298
Prepaid expenses and other	<u>2,167</u>

TOTAL CURRENT ASSETS	<u>14,378,951</u>
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PROPERTY, PLANT AND EQUIPMENT, NET	<u>19,850,598</u>
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OTHER ASSETS

Delinquent taxes receivable	<u>296,418</u>
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TOTAL OTHER ASSETS	<u>296,418</u>
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TOTAL ASSETS	<u>34,525,967</u>
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LIABILITIES AND NET POSITION

CURRENT LIABILITIES

Accounts payable, trade	99,538
Current installments of bonds payable	1,185,000
Deferred revenue	91,667
Accrued expenses	20,501
Self-funded liability protection plan	78,890
Due to Medicare and Medicaid programs	112,152
Due to Interest and Sinking Fund	<u>174,880</u>

TOTAL CURRENT LIABILITIES	<u>1,762,628</u>
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LONG-TERM DEBT

Bonds payable, portion due after one year	<u>6,625,000</u>
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NET POSITION

Invested in capital assets, net of related debt	12,040,598
Unrestricted	<u>14,097,741</u>

TOTAL NET POSITION	<u>\$ 26,138,339</u>
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ANGLETON-DANBURY HOSPITAL DISTRICT
STATEMENT OF NET POSITION
RESTRICTED FUND - BOND INTEREST AND SINKING FUND
SEPTEMBER 30, 2017

ASSETS

CURRENT ASSETS

Cash	\$ 1,123
Due from Unrestricted Fund	<u>174,880</u>

TOTAL ASSETS	<u>176,003</u>
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NET POSITION

TOTAL NET POSITION	<u>\$ 176,003</u>
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**ANGLETON-DANBURY HOSPITAL DISTRICT
STATEMENT OF OPERATIONS - UNRESTRICTED FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

REVENUES

Tax receipts	\$ 5,770,636
Other revenue	<u>401,197</u>

TOTAL REVENUES	<u>6,171,833</u>
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EXPENSES

Intergovernmental expenses	3,916,312
Administrative services	379,678
Depreciation and amortization	2,169,275
Interest	<u>261,634</u>

TOTAL EXPENSES	<u>6,726,899</u>
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LOSS FROM OPERATIONS	<u>(555,066)</u>
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NON-OPERATING LOSS

Loss on transfer of assets	(109,051)
Unrealized losses on investments, net	(216,269)
Gain on sale of investments	4,171
Interest income	<u>189,350</u>

TOTAL NON-OPERATING LOSS	<u>(131,799)</u>
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CHANGE IN NET POSITION	<u>\$ (686,865)</u>
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**ANGLETON-DANBURY HOSPITAL DISTRICT
STATEMENTS OF CHANGES IN NET POSITION
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

	<u>Unrestricted Fund</u>	<u>Bond Interest and Sinking Fund</u>
BALANCES, SEPTEMBER 30, 2016	\$ 26,825,204	\$ 173,618
Change in net position	<u>(686,865)</u>	<u>2,385</u>
BALANCES, SEPTEMBER 30, 2017	<u>\$ 26,138,339</u>	<u>\$ 176,003</u>

See accompanying notes.

ANGLETON-DANBURY HOSPITAL DISTRICT
STATEMENT OF CASH FLOWS
UNRESTRICTED FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017

Cash flows from operating activities:	
Cash received from taxes	\$ 5,750,210
Cash received from other income	401,197
Cash payments to suppliers for goods, services, and interest	<u>(5,007,314)</u>
Net cash provided by operating activities	<u>1,144,093</u>
Cash flows from capital and related financing activities:	
Change in due to interest and sinking fund	2,385
Repayment of bonds payable	<u>(1,190,000)</u>
Net cash used by capital and related financing activities	<u>(1,187,615)</u>
Cash flows from investing activities:	
Sale of investments	2,621,061
Purchase of investments	(2,721,122)
Unrealized loss on investments	216,269
Interest income	<u>189,350</u>
Net cash provided by investing activities	<u>305,558</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	262,036
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>4,458,800</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 4,720,836</u>

(Continued)

**ANGLETON-DANBURY HOSPITAL DISTRICT
STATEMENT OF CASH FLOWS
UNRESTRICTED FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2017**

Reconciliation of loss from operations to net cash
provided by operating activities:

Loss from operations	\$ (555,066)
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Adjustments to reconcile loss from operations to cash
provided by operating activities:

Depreciation and amortization	2,169,275
Changes in operating assets and liabilities:	
Prepaid expenses and other	214,135
Delinquent taxes receivable	(20,426)
Accounts payable, trade	(201,775)
Accrued expenses	(3,124)
Due to Medicare and Medicaid programs	<u>(458,926)</u>

Net cash provided by operating activities	<u>\$ 1,144,093</u>
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NOTE A ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity – Angleton Danbury Hospital District (the District) is a government entity which, until August 16, 2014 operated the Angleton-Danbury Medical Center, Angleton, Texas. As more fully discussed in Note H, effective August 16, 2014 the District leased the hospital to The University of Texas Medical Branch (UTMB) in Galveston. The District is not a component unit of another governmental entity.

Basis of Presentation – Fund Accounting – The accounts of the District are organized on the basis of funds. The operations of each fund are accounted for with a separate set of self-balancing accounts that are comprised of assets, liabilities, net position, revenues, and expenditures or expenses, as appropriate.

Restricted Fund – The restricted fund of the District is comprised of the following:

Bond Interest and Sinking Fund – The Bond Interest and Sinking Fund was established by the Refunding Bonds (Series 2011 and 2012) to provide restricted assets for the payment of the annual principal and interest obligations on the bonds. Assets in the fund are to be depleted annually except for an amount not to exceed the greater of one year's earnings on the Bond Interest and Sinking fund or one-twelfth of the annual debt service (see also Note C).

Accounting Standards – The accounting and reporting policies of the District relating to the funds included in the accompanying financial statements conform to accounting principles generally accepted in the United States of America applicable to state and local governments. Generally accepted accounting principles (GAAP) for local governments are those principles prescribed by the Governmental Accounting Standards Board (GASB), which is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

Enterprise Fund Accounting – The District utilizes the enterprise fund method of accounting whereby revenue and expenses are recognized on the accrual basis using the economic resources measurement focus. Substantially all revenues and expenses are subject to accrual.

Use of Estimates – The preparation of financial statements in conformity with generally accepted accounting principles in the United States 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.

Cash and Equivalents – Cash and equivalents (which include certificates of deposit with a maturity of three months or less) are maintained with major financial institutions in the United States. Deposits with these financial institutions may exceed the amount of federal deposit insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and, therefore, have minimal risk. In monitoring this credit risk, the District periodically evaluates the stability of the financial institutions. All bank balances and deposits as of September 30, 2017 are entirely insured or collateralized with securities held by the District or by its Agent in the District's name.

NOTE A ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments and Interest Rate Risk – Securities, including any debt securities, are carried at fair market value. Interest and realized and unrealized gains and losses on investments are included in non-operating income. In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investments to ten years or less.

Depreciation – The District records depreciation for financial statement purposes on the straight-line method. Buildings are depreciated over a 30 to 40-year useful life. Equipment is depreciated over various useful lives, giving consideration to obsolescence and other factors.

Cost of Borrowing – Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets when interest expenditures exceeds related interest revenue. None of the District's interest cost was capitalized in 2017.

Property Taxes – The District received approximately 93.5% of its total revenues from property taxes in 2017. Approximately 25.2% of property tax revenue was used for debt service on bonds in 2017. Taxes are levied beginning on October 1 of each year and become delinquent on February 1, of the following year.

Loss on transfer of assets – During 2017, certain assets of the District, that were not fully depreciated, were transferred to UTMB. The net book value of the assets at the time of the transfer are reflected as a loss on transfer of assets.

ANGLETON-DANBURY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017

NOTE B PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment stated at cost net of accumulated depreciation are as follows:

	Balance October 1, 2016	Additions	Retirements/ Adjustments	Balance September 30, 2017
Capital assets not being depreciated				
Land	\$ 643,000	\$ -	\$ -	\$ 643,000
Capital assets being depreciated				
Land Improvements	152,727	-	(6,583)	146,144
Building and Fixed Equipment	39,670,924	-	(747,742)	38,923,182
Professional Office Buildings and Fixed Equipment	3,828,760	-	(128,964)	3,699,796
Wellness Center	1,490,926	-	-	1,490,926
Equipment, Furn. and Fixt.	9,419,758	-	(1,383,290)	8,036,468
Total capital assets being depreciated	54,563,095	-	(2,266,579)	52,296,516
Less accumulated depreciation for:				
Land Improvements	(76,641)	(800)	6,580	(70,861)
Building and Fixed Equipment	(22,512,625)	(1,473,683)	747,745	(23,238,563)
Professional Office Buildings and Fixed Equipment	(2,851,651)	(373,834)	128,963	(3,096,522)
Wellness Center	(933,136)	(56,387)	-	(989,523)
Equipment, Furn. and Fixt.	(6,703,116)	(264,571)	1,274,238	(5,693,449)
Total accumulated depreciation	(33,077,169)	(2,169,275)	2,157,526	(33,088,918)
Total capital assets being depreciated, net	21,485,926	(2,169,275)	(109,053)	19,207,598
Capital assets, net	\$ 22,128,926	\$ (2,169,275)	\$ (109,053)	\$ 19,850,598

During 2017 the District retired approximately \$2,000,000 in fully depreciated property, plant, and equipment.

**ANGLETON-DANBURY HOSPITAL DISTRICT
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2017**

NOTE C LONG-TERM DEBT

Bonds payable at September 30 are comprised of the following:

Hospital Improvement Refunding Bonds, Series 2011, bearing interest at 3.15%, due in annual installments of \$520,000 to \$720,000 plus accrued interest; principal and interest requirements to be met from Hospital District taxes	\$ 3,805,000
Hospital Improvement Refunding Bonds, Series 2012, bearing interest at 3.15%, due in annual installments of \$30,000 to \$735,000 plus accrued interest; principal and interest requirements to be met from Hospital District taxes	<u>4,005,000</u>
Total	7,810,000
Less: Current installments of bonds	<u>1,185,000</u>
Portion due after one year	<u>\$ 6,625,000</u>

In fiscal 2012, the District issued hospital improvement refunding bonds to refund in advance the 2002 and a significant portion of the 2003 hospital improvement bonds which resulted in a reduction in total debt service requirements of \$670,943. The refunded bonds were retired at the time of the refunding, and there is no outstanding in-substance defeased debt related to this refunding. The economic gain on the refunded bonds was \$474,231.

Future maturities of long-term bonds payable are:

<u>Year Ending September 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2018	\$ 1,185,000	\$ 267,664	\$ 1,452,664
2019	1,210,000	262,942	1,472,942
2020	1,280,000	208,725	1,488,725
2021	1,320,000	152,088	1,472,088
2022	1,360,000	93,565	1,453,565
2023	<u>1,455,000</u>	<u>31,916</u>	<u>1,486,916</u>
	<u>\$ 7,810,000</u>	<u>\$ 1,016,900</u>	<u>\$ 8,826,900</u>

Included in accrued expenses at September 30, 2017 was approximately \$21,000 in accrued interest on the above bond issues. Total interest paid in 2017 was \$264,758.

NOTE C LONG-TERM DEBT (CONTINUED)

Changes in outstanding long-term debt are as follows:

	Balance October 1, 2016	Issues or Additions	Payments or Expenditures	Balance September 30, 2017
Hospital Imp. Refunding Bonds	\$ 9,000,000	\$ -	\$ 1,190,000	\$ 7,810,000

NOTE D BANK DEPOSITS AND INVESTMENTS

The District requires all bank balances be insured or collateralized by U.S. government securities held by the District's third party agent or the pledging financial institution's trust department in the name of the District. At September 30, 2017 all deposits were in compliance with this requirement.

At September 30, 2017, the District had the following investments:

Investment Type	Cost	Fair Value	Weighted Average Maturity (Years)
U. S Government Securities	\$ 9,792,682	\$ 9,645,298	8.36
Total investments	\$ 9,792,682	\$ 9,645,298	

Credit Risk - The District is restricted by state statute to investments which include obligations of the U.S. Government and its agencies, obligations of the State of Texas and its agencies, obligations of other states, cities, and counties having at least an "A" rating, common trust funds of banks domiciled in Texas, certificates of deposit, and repurchase agreements.

Interest Rate Risk - In accordance with its investment policy, the District manages its exposure to declines in fair values by limiting the weighted average maturity of its investments to ten years or less.

NOTE E FAIR VALUE DISCLOSURES

GAAP provides a framework for measuring fair value using a hierarchy that prioritizes the inputs to valuation techniques used to measure fair value based upon whether the inputs to those valuation techniques are observable or unobservable. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical financial instruments and the lowest priority to unobservable inputs. Valuation techniques maximize the use of observable inputs and minimize the use of unobservable inputs. The financial instrument's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. These inputs are summarized in the three levels listed below:

NOTE E FAIR VALUE DISCLOSURES (CONTINUED)

Level 1 – Inputs to valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the District has the ability to access.

Level 2 – Other significant observable inputs (including quoted prices in active or inactive markets for similar financial instruments), or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the financial instruments.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the financial instruments. The fair value of Level 3 financial instruments is determined using pricing models, discounted cash flow methodologies, or similar techniques, as well as instruments for which the determination of fair value requires significant management judgment or estimation.

Following is a description of the valuation techniques used for investments measured at fair value. There have been no changes in the techniques used during 2017.

Fixed income securities, such as U.S. Government securities are valued using quotes from independent pricing vendors based on recent trading activity and other relevant information, including market interest rate curves, referenced credit spreads and estimated prepayment rates, where applicable. All of the District's investments are considered Level 2 investments.

The preceding method described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the District believes its valuation techniques are appropriate and consistent with other market participants, the use of different techniques or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

There were no significant transfers in and/or out of the fair value categories during 2017.

NOTE F CHARITY CARE

The District provides charity care to indigents through its lease agreement with UTMB. The total amount paid by the District to UTMB, which included payments for indigent care, was approximately \$3,900,000 for 2017.

NOTE G SELF INSURANCE

As a result of the lease of the hospital facilities to UTMB the District no longer maintains insurance coverage related to theft or damage to assets; errors and omissions; and natural disasters. The District continues to maintain a self-insured retention program for workers compensation. Claims in excess of the self-insured retention amounts are covered through third party limited coverage insurance policies. The liabilities for incurred but not reported claims were actuarially determined through September 30, 2014. Since the Hospital no longer has employees, management has determined that the previously computed reserve remains adequate. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines and damage awards, the process used in computing the claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims and other economic and social factors. No claims were presented or paid during 2017.

The limits of liability under the self insured program for workers compensation along with the liability reported are as follows:

<u>Policy</u>	<u>Maximum Per Person</u>	<u>Maximum Per Occurrence</u>	<u>Aggregate Stop-Loss</u>
Workers Compensation	N/A	\$ 325,000	\$ 1,000,000

<u>Self-Insurance Liability</u>	<u>Workers Compensation</u>
September 30, 2016 Year-End	\$ 78,890
Claims and Changes in Estimates	-
September 30, 2017 Year-End	<u>\$ 78,890</u>

NOTE H HOSPITAL LEASE

In August, 2014, the District entered into a lease arrangement with UTMB in Galveston. Under the lease, the District retains ownership of all real property. UTMB will operate the hospital, including the management of all professional office buildings, and employ or contract with all personnel working at the hospital. A lease payment of \$100,000 is received annually by the District from UTMB who is also obligated to invest at least \$1,000,000 per year in capital improvements. As part of the overall agreement, the District contracts with UTMB to provide state-mandated indigent care services to District residents. The agreement calls for the District to pay UTMB the equivalent of the maintenance and operation portion of ad valorem taxes collected for the purpose of reimbursing UTMB for indigent care, bad debts, capital expenditures, and other expenses necessary to operate the hospital, less the District's expenses. The total amount of payment for indigent care, bad debt, capital improvement, etc. for 2017 was approximately \$3,900,000. The initial term of the lease is 10 years with two (2) five year renewal options to follow. UTMB paid the required lease payment and made the required capital improvements during the year ended September 30, 2017.