

**PECOS COUNTY MEMORIAL HOSPITAL**  
**(An Enterprise Fund of Pecos County, Texas)**  
**FORT STOCKTON, TEXAS**

**For the Years Ended**  
**December 31, 2016 and 2015**

# **DURBIN & COMPANY, L. L. P.**

Certified Public Accountants

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Managers  
Pecos County Memorial Hospital  
(An Enterprise Fund of Pecos County, Texas)  
Fort Stockton, Texas

### **Report on the Financial Statements**

We have audited the accompanying statements of net position of Pecos County Memorial Hospital, an enterprise fund of Pecos County, Texas (the "Hospital"), as of December 31, 2016 and 2015, and the statements of revenues, expenses, and changes in net position and statements of cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Hospital's basic financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Hospital'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 Hospital'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 Pecos County Memorial Hospital, an enterprise fund of Pecos County, Texas, as of December 31, 2016 and 2015, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

### **Other Matters**

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages A-1 through A-5 and the defined benefit plan information on pages 32 through 35 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context.

We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

*Durbin & Company, L.L.P.*

Durbin & Company, L.L.P.  
Lubbock, Texas  
July 14, 2017

**PECOS COUNTY MEMORIAL HOSPITAL**  
**(An Enterprise Fund of Pecos County, Texas)**  
**FORT STOCKTON, TEXAS**

**Management's Discussion & Analysis**

**For the Years Ended**  
**December 31, 2016 and 2015**

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2016 AND 2015  
(Unaudited)**

Our discussion and analysis of Pecos County Memorial Hospital's, an enterprise fund of Pecos County, Texas (the "Hospital"), financial performance provides an overview of the Hospital's financial activities for the fiscal years ended December 31, 2016 and 2015. Please read it in conjunction with the Hospital's financial statements, which begin on page 1.

**FINANCIAL HIGHLIGHTS**

- The Hospital's net position reflects a \$7,163,725, or 308.6%, decrease in 2016 and a \$4,053,525, or 63.6%, decrease in 2015.
- Net patient service revenue decreased \$2,926,376, or 12.3%, in 2016 and increased \$2,391,285, or 11.2%, in 2015.
- Total operating expenses decreased \$976,571, or 2.9%, in 2016 and increased \$523,831, or 1.6%, in 2015.

**USING THIS ANNUAL REPORT**

The Hospital's financial statements consist of three statements, a Statement of Net Position; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, and enabling legislation.

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

Our analysis of the Hospital's finances begins on page A-2. One of the most important questions asked about the Hospital's finances is, "Is the Hospital as a whole better or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Hospital's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Hospital's net position and changes in it. You can think of the Hospital's net position—the difference between assets and liabilities—as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors; however, such as changes in the Hospital's patient base and measures of the quality of service it provides to the community, as well as local economic factors to access the overall health of the Hospital.

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
MANAGEMENT’S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2016 AND 2015  
(Unaudited)**

**The Statement of Cash Flows**

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as “Where did cash come from?”, “What was cash used for?”, and “What was the change in cash balance during the reporting period?”

**THE HOSPITAL’S NET POSITION**

The Hospital’s net position is the difference between its assets and deferred outflows of resources and liabilities and deferred inflows of resources reported in the Statement of Net Position on page 2. The Hospital’s net position decreased \$7,163,725, or 308.6%, in 2016 and \$4,053,525, or 63.6%, in 2015, as you can see below.

**Table 1: Assets, Liabilities, and Net Position**

	2016	2015 (Restated - Note 15)	2014
Assets and Deferred Outflows of Resources:			
Current Assets	\$ 5,586,221	\$ 8,134,793	\$ 8,140,549
Capital Assets (Net)	15,079,505	17,396,792	18,102,573
Deferred Outflows of Resources	3,959,999	1,594,581	-
Total Assets and Deferred Outflows of Resources	<u>\$ 24,625,725</u>	<u>\$ 27,126,166</u>	<u>\$ 26,243,122</u>
Liabilities and Deferred Inflows of Resources:			
Long-Term Debt Outstanding	\$ 954,573	\$ 1,802,363	\$ 2,250,760
Other Current and Non-Current	28,029,492	23,002,100	17,617,134
Deferred Inflows of Resources	483,682	-	-
Total Liabilities and Deferred Inflows of Resources	29,467,747	24,804,463	19,867,894
Net Position:			
Net Investment in Capital Assets	14,124,932	15,594,429	15,851,813
Unrestricted	(18,966,954)	(13,272,726)	(9,476,585)
Total Net Position	<u>(4,842,022)</u>	<u>2,321,703</u>	<u>6,375,228</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 24,625,725</u>	<u>\$ 27,126,166</u>	<u>\$ 26,243,122</u>

Significant components of the change in the Hospital’s net position are a decrease in cash and cash equivalents of \$1,431,165 and a decrease in net patient accounts receivable of \$1,217,762.

**PECOS COUNTY MEMORIAL HOSPITAL**  
**(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)**  
**DECEMBER 31, 2016 AND 2015**  
**(Unaudited)**

**OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION**

In 2016 and 2015, the Hospital's net position decreased \$7,163,725 and \$4,053,525, respectively. This decrease is made up of different components, as you can see from **Table 2**.

**Table 2: Operating Results and Changes in Net Position**

	2016	2015 (Restated - Note 15)	2014
Operating Revenues:			
Net Patient Service Revenue	\$ 20,859,274	\$ 23,795,568	\$ 21,404,283
Electronic Medical Records Stimulus	-	359,483	46,436
Delivery System Reform Incentive Program	1,434,193	1,056,301	1,976,426
Other Operating Revenue	290,099	357,009	341,280
Total Operating Revenue	<u>22,583,566</u>	<u>25,568,361</u>	<u>23,768,425</u>
Operating Expenses:			
Salaries and Benefits	21,459,601	23,564,984	22,714,583
Other Operating Expenses	9,147,353	7,989,923	8,388,727
Depreciation/Amortization	1,727,920	1,756,538	1,684,304
Total Operating Expenses	<u>32,334,874</u>	<u>33,311,445</u>	<u>32,787,614</u>
Operating Loss	(9,751,308)	(7,743,084)	(9,019,189)
Nonoperating Revenues and Expenses:			
County Subsidy	3,455,312	4,573,127	4,709,295
Noncapital Grants/Contributions	11,638	39,856	10,148
Community Benefit Support	852,512	860,820	828,400
Intergovernmental Transfer Expense	(625,000)	(658,038)	(436,180)
Loss on Disposal of Assets	(1,081,479)	-	-
Other	(52,325)	(65,639)	(89,700)
Deficit of Revenues over Expenses Before Capital Grants and Contributions	(7,190,650)	(2,992,958)	(3,997,226)
Capital Grants and Contributions	<u>26,925</u>	<u>89,217</u>	<u>15,052</u>
Decrease in Net Position	<u>(7,163,725)</u>	<u>(2,903,741)</u>	<u>(3,982,174)</u>
Net Position, Beginning of Year, as Originally Reported	2,321,703	6,375,228	10,357,402
Adjustment for Change in Accounting Principle	-	(1,149,784)	-
Net Position, Beginning of Year, as Restated	<u>2,321,703</u>	<u>5,225,444</u>	<u>10,357,402</u>
Net Position, End of Year	<u>\$ (4,842,022)</u>	<u>\$ 2,321,703</u>	<u>\$ 6,375,228</u>

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2016 AND 2015  
(Unaudited)**

**Operating Losses**

The first component of the overall change in the Hospital's net position is its operating loss - generally, the difference between net patient service revenues and the expenses incurred to perform those services. The Hospital has reported an operating loss of \$9,751,308 in 2016 and \$7,743,084 in 2015. Changes in reimbursement rates, payment schedules, fluctuation in payments for inpatient and outpatient services, utilization by the medical staff, changes in the Hospital's net pension and OPEB liabilities, and other factors have impacted the operating losses from year to year.

The primary components of an unfavorable increase in operating loss in 2016 are:

- Net patient service revenue decrease of \$2,936,294, or 12.3%
- Electronic medical records stimulus decrease of \$359,483, or 100.0%
- Other operating expenses increased \$1,157,430, or 14.5%

The primary components of a favorable decrease in operating loss in 2015 are:

- Net patient service revenue increase of \$2,391,285, or 11.2%
- Electronic medical records stimulus increase of \$313,047, or 674.1%
- Other operating expenses decreased \$398,804, or 4.8%

**Nonoperating Revenues and Expenses**

Nonoperating revenues consist primarily of County subsidies provided by Pecos County, Texas (the "County") and indigent care support revenue. The County subsidies are provided to subsidize the Hospital's operations, including providing care to the indigent population of Pecos County, Texas. These subsidies are both noncapital and capital in nature. The County subsidies fluctuate based on property values and the continuous tax rate. Indigent care support revenue exceeded intergovernmental transfer expense by \$227,512 and \$202,782 in 2016 and 2015, respectively.

**Grants, Contributions, and Endowments**

The Hospital received \$11,638 and \$39,856 in noncapital grants and contributions in 2016 and 2015, respectively, and received \$26,925 and \$89,217 in capital grants and contributions in 2016 and 2015, respectively.

**THE HOSPITAL'S CASH FLOWS**

Changes in the Hospital's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses previously discussed.



**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2016 AND 2015  
(Unaudited)**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2016, the Hospital had \$15,079,505 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 of the financial statements, compared to \$17,396,792 in 2015. In 2016 and 2015, the Hospital acquired \$493,835 and \$1,050,756, respectively, in capital assets. During 2016, the Hospital incurred a loss on disposal of assets of \$1,081,479 due to the discontinuation of a dialysis building and facility expansion construction project. The continuation of the construction project was subject to the issuance of bonds. The bond issue was not approved.

**Debt**

At the end of 2016, the Hospital had long-term debt outstanding of \$954,573, as detailed in Note 6 of the financial statements, compared to \$1,802,363 in 2015. During 2016 and 2015, the Hospital assumed \$-0- and \$344,912, respectively, in capital lease obligations. In 2016 and 2015, long-term debt payments made by Pecos County, Texas on behalf of the Hospital totaled \$615,000 and \$595,000, respectively.

**Other Economic Factors**

The Hospital maintains good relations with agricultural based companies, petroleum industry, City of Fort Stockton, and school districts as well as other businesses in Pecos County, Texas. Some of these relations are being fostered through the clinics, wellness center, and outpatient services. The Hospital continues to expand its presence in the area by opening clinics in smaller surrounding communities and expanding its clinical operations in Fort Stockton, Texas.

**CONTACTING THE HOSPITAL'S FINANCIAL MANAGEMENT**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Hospital's Chief Financial Officer at Pecos County Memorial Hospital, West IH-10, Fort Stockton, Texas 79735.

**PECOS COUNTY MEMORIAL HOSPITAL**  
**(An Enterprise Fund of Pecos County, Texas)**  
**FORT STOCKTON, TEXAS**

**Financial Statements**

**For the Years Ended**  
**December 31, 2016 and 2015**

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)**

**STATEMENTS OF NET POSITION**

**DECEMBER 31, 2016 AND 2015**

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:</b>	<u>2016</u>	<u>2015 (Restated - Note 15)</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 919,171	\$ 2,350,336
Patient Accounts Receivable, Net of Allowances	2,146,835	3,364,597
Estimated Third-Party Payor Settlements	-	81,016
Other Receivables	1,902,906	1,561,016
Inventory of Supplies	385,337	767,397
Prepaid and Other Current Assets	<u>231,972</u>	<u>10,431</u>
Total Current Assets	5,586,221	8,134,793
<b>CAPITAL ASSETS,</b>		
Net of Accumulated Depreciation	<u>15,079,505</u>	<u>17,396,792</u>
Total Assets	20,665,726	25,531,585
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Difference Between Projected and Actual Earnings	2,557,887	381,870
Differences Between Expected and Actual Experience	12,993	19,489
Changes in Assumptions or Inputs	354,950	-
Contributions Subsequent to the Measurement Date	<u>1,034,169</u>	<u>1,193,222</u>
Total Deferred Outflows of Resources	<u>3,959,999</u>	<u>1,594,581</u>
Total Assets and Deferred Outflows of Resources	<u><u>\$ 24,625,725</u></u>	<u><u>\$ 27,126,166</u></u>

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

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)**

**STATEMENTS OF NET POSITION**

**DECEMBER 31, 2016 AND 2015**

<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION:</b>	<u>2016</u>	<u>2015 (Restated - Note 15)</u>
<b>CURRENT LIABILITIES</b>		
Current Portion of Long-Term Debt	\$ 764,851	\$ 843,179
Accounts Payable	1,771,823	1,742,257
Accrued Payroll, Benefits, and Related Liabilities	1,556,499	1,854,476
Estimated Third-Party Payor Settlements	43,564	-
Other Accrued Liabilities	523,474	809,687
Other Post-Employment Benefit Obligation, Current Portion	<u>432,000</u>	<u>452,281</u>
Total Current Liabilities	5,092,211	5,701,880
<b>NONCURRENT LIABILITIES</b>		
Long-Term Debt, Net of Current Portion	189,722	959,184
Net Pension Liability	4,612,788	2,494,608
Other Post-Employment Benefit Obligation, Net of Current Portion	<u>19,089,344</u>	<u>15,648,791</u>
Total Noncurrent Liabilities	<u>23,891,854</u>	<u>19,102,583</u>
Total Liabilities	28,984,065	24,804,463
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Difference Between Expected and Actual Experience	483,682	-
<b>NET POSITION</b>		
Net Investment in Capital Assets	14,124,932	15,594,429
Unrestricted	<u>(18,966,954)</u>	<u>(13,272,726)</u>
Total Net Position	<u>(4,842,022)</u>	<u>2,321,703</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 24,625,725</u>	<u>\$ 27,126,166</u>

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

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)**

**STATEMENTS OF REVENUES, EXPENSES,  
AND CHANGES IN NET POSITION**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015 (Restated - Note 15)</u>
<b>OPERATING REVENUES:</b>		
Net Patient Service Revenue	\$ 20,859,274	\$ 23,795,568
Electronic Medical Records Stimulus	-	359,483
Delivery System Reform Incentive Program	1,434,193	1,056,301
Other Operating Revenue	<u>290,099</u>	<u>357,009</u>
Total Operating Revenues	<u>22,583,566</u>	<u>25,568,361</u>
<b>OPERATING EXPENSES:</b>		
Salaries and Wages	13,601,384	15,625,217
Employee Benefits	7,858,217	7,939,767
Professional Fees and Purchased Services	4,390,346	3,430,928
Supplies and Other	2,480,471	2,395,301
Other Operating	2,276,536	2,163,694
Depreciation and Amortization	<u>1,727,920</u>	<u>1,756,538</u>
Total Operating Expenses	<u>32,334,874</u>	<u>33,311,445</u>
Operating Loss	(9,751,308)	(7,743,084)
<b>NONOPERATING REVENUES (EXPENSES):</b>		
County Subsidy	3,455,312	4,573,127
Noncapital Grants and Contributions	11,638	39,856
Community Benefit Support	852,512	860,820
Intergovernmental Transfer Expense	(625,000)	(658,038)
Investment Income	20,536	10,983
Interest Expense	(72,861)	(76,622)
Loss on Disposal of Assets	<u>(1,081,479)</u>	<u>-</u>
Total Nonoperating Revenues (Expenses)	<u>2,560,658</u>	<u>4,750,126</u>
Deficit of Revenues Over Expenses Before Capital Grants and Contributions	(7,190,650)	(2,992,958)
Capital Grants and Contributions	<u>26,925</u>	<u>89,217</u>
Decrease in Net Position	(7,163,725)	(2,903,741)
Net Position, Beginning of Year, as Originally Reported	2,321,703	6,375,228
Adjustment for Change in Accounting Principle	<u>-</u>	<u>(1,149,784)</u>
Net Position, Beginning of Year, as Restated	<u>2,321,703</u>	<u>5,225,444</u>
Net Position, End of Year	<u><u>\$ (4,842,022)</u></u>	<u><u>\$ 2,321,703</u></u>

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

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015 (Restated - Note 15)
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts From and on Behalf of Patients	\$ 21,915,403	\$ 24,698,531
Other Receipts and Payments, Net	1,382,402	2,124,481
Payments to Suppliers and Contractors	(1,837,341)	(3,094,238)
Payments to Employees	(24,143,277)	(25,105,931)
Net Cash Used by Operating Activities	(2,682,813)	(1,377,157)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment Earnings	20,536	10,983
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital Grants and Contributions	26,925	89,217
County Subsidy for Capital Activities	1,022,106	1,058,982
Principal Payments on Long-Term Debt	(847,790)	(793,310)
Interest Payments on Long-Term Debt	(72,861)	(76,622)
Proceeds From Sale of Capital Assets	1,723	-
Purchase of Capital Assets	(493,835)	(681,844)
Net Cash Used by Capital and Related Financing Activities	(363,732)	(403,577)
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
County Subsidy for Operations	2,433,206	3,739,860
Noncapital Grants and Contributions	11,638	39,856
Payments for Intergovernmental Transfers	(850,000)	(658,038)
Net Cash Provided by Noncapital Financing Activities	1,594,844	3,121,678
Net Increase (Decrease) in Cash and Cash Equivalents	(1,431,165)	1,351,927
Cash and Cash Equivalents, Beginning of Year	2,350,336	998,409
Cash and Cash Equivalents, End of Year	\$ 919,171	\$ 2,350,336

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

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)**

**STATEMENTS OF CASH FLOWS (CONTINUED)**

**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	2016	2015 (Restated - Note 15)
<b>RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:</b>		
Operating Loss	\$ (9,751,308)	\$ (7,743,084)
Adjustments to Reconcile Operating Loss to Net Cash		
Used by Operating Activities:		
Depreciation and Amortization	1,727,920	1,756,538
Provision for Bad Debt	2,902,445	4,059,110
Community Benefit Support	852,512	860,820
Pension Expense (Income)	236,444	(249,757)
Other Post-Employment Benefit Expense	3,420,272	3,437,217
(Increase) Decrease in:		
Accounts Receivable	(1,684,683)	(3,698,570)
Estimated Third-Party Payor Settlements	81,016	136,973
Other Receivables	(341,890)	780,983
Prepaid Expenses and Other Current Assets	385,519	(146,528)
Increase (Decrease) in:		
Accounts Payable	29,566	(554,851)
Accrued Salaries and Benefits Payable	(297,977)	7,837
Estimated Third-Party Payor Settlements	43,564	-
Other Accrued Liabilities	(286,213)	(23,845)
Net Cash Used by Operating Activities	<u>\$ (2,682,813)</u>	<u>\$ (1,377,157)</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:</b>		
Acquisition of Capital Assets Under Capital Lease Obligations	<u>\$ -</u>	<u>\$ 344,912</u>
Reduction of Long-Term Debt on Behalf of Hospital	<u>\$ 615,000</u>	<u>\$ 595,000</u>
Interest Expense Related to Reduction of Long-Term Debt	<u>\$ 29,312</u>	<u>\$ 48,128</u>
Capital Asset Acquisitions Included in Accounts Payable	<u>\$ -</u>	<u>\$ 24,000</u>

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

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2016 AND 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Organization** – Pecos County Memorial Hospital (the “Hospital”) is an enterprise fund of Pecos County, Texas (the “County”). The Hospital is an acute care hospital located in Fort Stockton, Texas. The Hospital is operated under a six member Board of Managers, who are appointed by the elected County Commissioners. The Hospital primarily earns revenues by providing inpatient, outpatient, and emergency care services to residents of Pecos County, Texas and patients from the surrounding area. The County General Fund subsidizes the Hospital as needed with a budgeted portion of the ad valorem tax revenue assessed by the County each year.

The Hospital operates an acute care facility, the Family Care Center, a home health service, hospice services, a wellness center, and community health clinics in Fort Stockton, Sanderson, and Marathon, Texas.

**Enterprise Fund Accounting** – The Hospital uses enterprise fund accounting. The accompanying financial statements are prepared on the accrual basis of accounting, whereby revenues are recognized in the accounting period when services are rendered and expenses are recognized when incurred.

**Method of Accounting** - The Hospital is considered a governmental organization and is subject to the pronouncements of the Governmental Accounting Standards Board (GASB). The Hospital has elected to apply the provisions based on GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncement*. The Hospital has also elected to apply the provisions of GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*.

**Use of Estimates** - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the 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 Cash Equivalents** - The Hospital considers highly liquid investments with a maturity of three months or less to be cash equivalents, excluding amounts whose use is limited by board designation or other arrangements under trust agreements or with third-party payors. At December 31, 2016 and 2015, cash and cash equivalents consisted primarily of deposits.

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



**PECOS COUNTY MEMORIAL HOSPITAL  
 (AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2016 AND 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Inventory of Supplies** - Inventory is stated at historical cost on the First-In, First-Out (FIFO) method.

**Assets Whose Use is Limited** - Assets whose use is limited include assets set aside by the board of managers to be used for capital expenditures over which the board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the Hospital are reclassified in the statements of net position as current assets.

**Capital Assets** – Capital assets are carried at cost. Contributed capital assets are reported at their estimated fair value at the time of their donation. Equipment under capital lease obligations is amortized on the straight-line method over the shorter of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Except for capital assets acquired through gifts, contributions, or capital grants, interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring these assets. The Hospital has elected to capitalize expenditures over \$1,000 and provide for depreciation of capital assets by the straight-line method at rates promulgated by the American Hospital Association, which are designed to amortize the cost of such equipment over its useful life as follows:

Land Improvements	8 to 15 years
Building (Components)	5 to 40 years
Equipment	3 to 20 years
Leased Assets	5 years

**Deferred Outflows/Inflows of Resources** – Transactions not meeting the definition of an asset or liability that result in the consumption or acquisition of net position in one period that are applicable to future periods are reported as deferred outflows of resources and deferred inflows of resources, respectively.

**Compensated Absences** – Hospital policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. The expense and the related liability are recognized as vacation benefits and are earned whether the employee is expected to realize the benefit as time off or in cash. The expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the statement of net position date.

**PECOS COUNTY MEMORIAL HOSPITAL  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Defined Benefit Pension Plan** – For purposes of measuring the net pension liability, deferred outflows of resources, deferred inflows of resources, and pension income/expense related to the defined benefit pension plan, information about the fiduciary net position of the Texas County and District Retirement System (“TCDRS”) defined benefit pension plan and additions to/deductions from TCERS’s fiduciary net position have been determined on the same basis as they are reported by TCERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

**Other Post-Employment Benefit Obligation** – Actuarial liabilities and comparative costs of the other post-employment benefit obligation are computed using the Unit Credit Actuarial Cost Method, which consists of the following components:

1. The Normal Cost – is the actuarial present value of benefits allocated to the valuation year.
2. The Actuarial Accrued Liability – is the actuarial present value of benefits accrued as of the valuation date.
3. Valuation Assets – are equal to the market value of assets as of the valuation date, if any.
4. Unfunded Actuarial Accrued Liability – is the difference between the actuarial accrued liability and the valuation assets. It is amortized over the maximum permissible period under GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*, of 30 years beginning January 1, 2009 with 23 years remaining as of January 1, 2016.

**Net Position** – Net position of the Hospital is classified into two components: net investment in capital assets and unrestricted. The net investment in capital assets component of net position consists of capital assets net of accumulated depreciation and reduced by the current balances of any outstanding borrowings that are attributable to the acquisition, construction, or improvement of those assets. The unrestricted component of net position is the net amount of the assets, deferred outflows of resources, liabilities, and deferred inflows of resources that are not included in the determination of net investment in capital assets.

**Operating Revenues and Expenses** – For purposes of display, the Hospital’s statement of revenues, expenses, and changes in net position distinguishes between operating and nonoperating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital’s principal activity. Non-exchange revenues, including County subsidies and grants and contributions received for purposes other than capital asset acquisition, are reported as nonoperating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

**Federal Income Taxes** - The Hospital is a governmental entity and is qualified as a tax-exempt organization under Section 115 of the Internal Revenue Code and a similar provision of state law; therefore, no expense has been provided for income taxes in the accompanying financial statements.

**PECOS COUNTY MEMORIAL HOSPITAL  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Charity Care** – The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Management’s policy for the provision of charity care is to determine eligibility by considering gross income, family size, employment status, amount and frequency of medical bills, and other cash resources. The Hospital considers Federal Poverty Income Limits issued by the U.S. Department of Health and Human Services to determine eligibility. Eligibility approval shall be good for one calendar year. Because the Hospital does not pursue the collection of amounts determined to qualify as charity care, charity care is excluded from net patient revenue.

**County Subsidies** – The Hospital receives payments from Pecos County, Texas to subsidize the costs incurred in providing healthcare services to the County’s indigent population, other operating costs, and capital related acquisitions, including servicing certain debt. These payments are based on an amount approved by the County Commissioners and are subject to change based on the County’s annual budget.

**Grants and Contributions** - From time to time, the Hospital receives grants from the state as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as nonoperating revenues. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

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

**Newly Adopted Accounting Pronouncements:**

**GASB Statement No. 76** – During 2016, the Hospital implemented the provisions of GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to improve accounting and financial reporting by raising the category of GASB Implementation Guides in the hierarchy of generally accepted accounting principles used to prepare financial statements of state and local governmental entities. The implementation of this Statement did not affect the change in net position in 2016 and 2015.

**PECOS COUNTY MEMORIAL HOSPITAL  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Pending Adoption of Recent Accounting Pronouncements:**

**GASB Statement No. 74** – GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2016.

**GASB Statement No. 75** – GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, changes the focus of accounting of postemployment benefits other than pensions from whether they are responsibly funding the benefits over time to a point-in-time liability that is reflected on the employer's financial statements for any actuarially unfunded portion of benefits earned to date. This Statement is effective for fiscal years beginning after June 15, 2017.

**NOTE 2 - NET PATIENT SERVICE REVENUE**

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. A summary of the payment arrangements with major third-party payors follows:

**Medicare** - Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare fiscal intermediary.

**Medicaid** – Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology for certain services and at prospectively determined rates for all other services. The Hospital is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid fiscal intermediary.

**Other** - The Hospital has also entered into payment agreements with certain commercial insurance carriers and preferred provider organizations. The basis for payment under these agreements includes prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015**

**NOTE 2 - NET PATIENT SERVICE REVENUE (CONTINUED)**

Net patient service revenue is comprised as follows:

	<u>2016</u>	<u>2015</u>
Routine Patient Services	\$ 9,380,787	\$ 13,274,810
Ancillary Patient Services:		
Inpatient	10,852,621	16,683,955
Outpatient	<u>35,692,198</u>	<u>38,339,530</u>
Gross Patient Service Revenue	55,925,606	68,298,295
Charity	(4,049,474)	(3,880,635)
Third-Party Contractual Adjustments	(30,657,879)	(38,477,597)
Provision for Bad Debts	(2,902,445)	(4,059,110)
Medicaid Supplemental Payments and Other Credits	<u>2,543,466</u>	<u>1,914,615</u>
 Net Patient Service Revenue	 <u><u>\$ 20,859,274</u></u>	 <u><u>\$ 23,795,568</u></u>

**Charity Care** – The value of charity care provided by the Hospital based upon its established rates was \$4,049,474 in 2016 and \$3,880,635 in 2015. ASU 2010-23 requires charity care to be disclosed on a cost basis. The Hospital utilizes the cost to charge ratios, as calculated based on its most recent cost reports, to determine the total cost. The Hospital’s cost of providing charity care was \$2,456,538 and \$2,018,710 for the years ended December 31, 2016 and 2015, respectively.

**Estimated Third-Party Payor Settlements** - Laws and regulations governing the Medicare and Medicaid programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. Anticipated final settlement amounts from current and prior years’ cost reports are recorded in the financial statements as they are determined by the Hospital. Estimated third-party payor settlements recorded in current assets (liabilities) at December 31, 2016 and 2015 are (\$43,564) and \$81,016, respectively.

**NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS**

At December 31, 2016 and 2015, the carrying amounts of the Hospital’s deposits with financial institutions were \$919,171 and \$2,350,336, respectively, and the bank balances were \$1,009,640 and \$2,624,902, respectively. The bank balances are secured through the bank by FDIC insurance up to the limits required by law. Any amounts in excess of this coverage are combined with the cash balances of Pecos County for purposes of collateralization by pledged securities.

**PECOS COUNTY MEMORIAL HOSPITAL  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015**

**NOTE 4 - ACCOUNTS RECEIVABLE**

Accounts receivable consist of the following at December 31:

	<u>2016</u>	<u>2015</u>
Gross Accounts Receivable	\$ 16,323,656	\$ 21,009,965
Less: Allowance for Bad Debts	(11,136,332)	(13,448,697)
Allowance for Contractuals	<u>(3,040,489)</u>	<u>(4,196,671)</u>
Accounts Receivable, Net of Allowance	<u>\$ 2,146,835</u>	<u>\$ 3,364,597</u>

**Concentration of Credit Risk** - The Hospital grants credit without collateral to its patients, most of who are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors at December 31 is as follows:

	<u>2016</u>	<u>2015</u>
Medicare	11%	21%
Medicaid	15%	13%
Other Third-Party Payors	20%	24%
Patients	<u>54%</u>	<u>42%</u>
Total	<u>100%</u>	<u>100%</u>

**PECOS COUNTY MEMORIAL HOSPITAL**  
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**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 5 – CAPITAL ASSETS**

The following is a summary of capital assets at cost less accumulated depreciation:

	Balance 12/31/2015	Additions	Reclass/ Retirements	Balance 12/31/2016
Capital Assets Not Being Depreciated:				
Land	\$ 85,649	\$ -	\$ -	\$ 85,649
Construction in Progress	1,083,202	-	(1,083,202)	-
Total Capital Assets Not Being Depreciated	1,168,851	-	(1,083,202)	85,649
Capital Assets Being Depreciated:				
Land Improvements	735,721	-	-	735,721
Building and Improvements	24,271,125	452,395	-	24,723,520
Equipment	12,695,434	41,440	220,973	12,957,847
Capital Leases	1,179,159	-	(220,973)	958,186
Capitalized Interest	1,746,954	-	-	1,746,954
Total Capital Assets Being Depreciated	40,628,393	493,835	-	41,122,228
Less Accumulated Depreciation for:				
Land Improvements	(593,553)	(20,710)	-	(614,263)
Building and Improvements	(11,801,744)	(772,244)	-	(12,573,988)
Equipment	(10,773,191)	(694,261)	(204,901)	(11,672,353)
Capital Leases	(636,843)	(197,031)	204,901	(628,973)
Capitalized Interest	(595,121)	(43,674)	-	(638,795)
Total Accumulated Depreciation	(24,400,452)	(1,727,920)	-	(26,128,372)
Total Capital Assets Being Depreciated, Net	16,227,941	(1,234,085)	-	14,993,856
Total Capital Assets, Net	<u>\$ 17,396,792</u>	<u>\$ (1,234,085)</u>	<u>\$ (1,083,202)</u>	<u>\$ 15,079,505</u>

**PECOS COUNTY MEMORIAL HOSPITAL**  
**(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 5 – CAPITAL ASSETS (CONTINUED)**

	Balance 12/31/2014	Additions	Reclass/ Retirements	Balance 12/31/2015
Capital Assets Not Being Depreciated:				
Land	\$ 85,649	\$ -	\$ -	\$ 85,649
Construction in Progress	2,626,158	189,705	(1,732,661)	1,083,202
Total Capital Assets Not Being Depreciated	2,711,807	189,705	(1,732,661)	1,168,851
Capital Assets Being Depreciated:				
Land Improvements	693,827	24,745	17,149	735,721
Building and Improvements	22,278,163	277,450	1,715,512	24,271,125
Equipment	12,481,490	213,944	-	12,695,434
Capital Leases	834,247	344,912	-	1,179,159
Capitalized Interest	1,746,954	-	-	1,746,954
Total Capital Assets Being Depreciated	38,034,681	861,051	1,732,661	40,628,393
Less Accumulated Depreciation for:				
Land Improvements	(565,600)	(27,953)	-	(593,553)
Building and Improvements	(11,040,308)	(761,436)	-	(11,801,744)
Equipment	(10,036,363)	(736,828)	-	(10,773,191)
Capital Leases	(450,196)	(186,647)	-	(636,843)
Capitalized Interest	(551,448)	(43,673)	-	(595,121)
Total Accumulated Depreciation	(22,643,915)	(1,756,537)	-	(24,400,452)
Total Capital Assets Being Depreciated, Net	15,390,766	(895,486)	1,732,661	16,227,941
Total Capital Assets, Net	<u>\$ 18,102,573</u>	<u>\$ (705,781)</u>	<u>\$ -</u>	<u>\$ 17,396,792</u>

Construction in progress for the year ended December 31, 2015 was \$1,083,202. This amount was related to costs incurred for the construction of a dialysis building and Hospital facility expansion. During 2015, this project was suspended. During 2016, issuance of bonds for the continuation of this project was not approved, resulting in the discontinuation of this project. As a result of the discontinuation, management determined the costs incurred were not capital in nature and wrote off the costs. The loss on the discontinuation of the project is included in the loss on disposal of assets in the accompanying statements of revenues, expenses, and changes in net position.



**PECOS COUNTY MEMORIAL HOSPITAL**  
**(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 6 – LONG-TERM DEBT**

Following is a summary of long-term debt at December 31:

	Balance 12/31/2015	Additions	Reductions	Balance 12/31/2016	Due Within One Year
Bonds Payable:					
Series 2008	\$ 1,250,000	\$ -	\$ (615,000)	\$ 635,000	\$ 635,000
Capital Leases Payable:					
Capital Lease #1	7,756	-	(7,756)	-	-
Capital Lease #2	14,830	-	(14,830)	-	-
Capital Lease #3	63,389	-	(54,043)	9,346	9,346
Capital Lease #4	72,068	-	(58,087)	13,981	13,981
Capital Lease #5	26,071	-	(8,602)	17,469	9,244
Capital Lease #6	45,865	-	(17,346)	28,519	18,663
Capital Lease #7	97,898	-	(15,733)	82,165	18,443
Capital Lease #8	125,682	-	(21,028)	104,654	24,168
Capital Lease #9	98,804	-	(35,365)	63,439	36,006
Total Capital Leases Payable	<u>552,363</u>	<u>-</u>	<u>(232,790)</u>	<u>319,573</u>	<u>129,851</u>
Total Long-Term Debt and Capital Leases	<u>\$ 1,802,363</u>	<u>\$ -</u>	<u>\$ (847,790)</u>	<u>\$ 954,573</u>	<u>\$ 764,851</u>

**PECOS COUNTY MEMORIAL HOSPITAL**  
**(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)**  
**NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)**  
**DECEMBER 31, 2016 AND 2015**

**NOTE 6 – LONG-TERM DEBT (CONTINUED)**

	Balance 12/31/2014	Additions	Reductions	Balance 12/31/2015	Due Within One Year
Bonds Payable:					
Series 2008	\$ 1,845,000	\$ -	\$ (595,000)	\$ 1,250,000	\$ 615,000
Capital Leases Payable:					
Capital Lease #1	25,523	-	(17,767)	7,756	7,756
Capital Lease #2	47,809	-	(32,979)	14,830	14,830
Capital Lease #3	114,109	-	(50,720)	63,389	54,043
Capital Lease #4	122,253	-	(50,185)	72,068	53,475
Capital Lease #5	34,078	-	(8,007)	26,071	8,602
Capital Lease #6	61,988	-	(16,123)	45,865	17,347
Capital Lease #7	-	103,751	(5,853)	97,898	15,733
Capital Lease #8	-	133,615	(7,933)	125,682	21,028
Capital Lease #9	-	107,546	(8,742)	98,804	35,365
Total Capital Leases Payable	<u>405,760</u>	<u>344,912</u>	<u>(198,309)</u>	<u>552,363</u>	<u>228,179</u>
Total Long-Term Debt and Capital Leases	<u>\$ 2,250,760</u>	<u>\$ 344,912</u>	<u>\$ (793,309)</u>	<u>\$ 1,802,363</u>	<u>\$ 843,179</u>

The terms and due dates of the Hospital's long-term debt at December 31, 2016 and 2015 is as follows:

- Revenue Bonds, Series 2008 – were issued in the principal amount of \$5,000,000 for the purpose of constructing a physical therapy wellness center, payable in annual installments of various amounts until February 2017, interest is payable semiannually at a rate of 3.11%, secured by a levy of property tax by Pecos County, Texas and additional surplus revenues of the Hospital.
- Capital lease #1 – Lease payable to Siemens Financial Services, payable in monthly installments of \$1,577, carrying an effective interest rate of 6.60%, collateralized by leased equipment. Paid in full during 2016.
- Capital lease #2 – Lease payable to Everbank Commercial Finance, payable in monthly installments of \$3,047, carrying an effective interest rate of 10.90%, collateralized by leased equipment. Paid in full during 2016.
- Capital lease #3 – Lease payable to Siemens Financial Services, payable in monthly installments of \$4,710, carrying an effective interest rate of 6.40%, with a maturity date of February 2017, collateralized by leased equipment.
- Capital lease #4 – Lease payable to Siemens Financial Services, payable in monthly installments of \$4,710, carrying an effective interest rate of 6.40%, with a maturity date of May 2017, collateralized by leased equipment.

**PECOS COUNTY MEMORIAL HOSPITAL  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2016 AND 2015**

**NOTE 6 – LONG-TERM DEBT (CONTINUED)**

- Capital lease #5 – Lease payable to Baytree National Bank, payable in monthly installments of \$850, carrying an effective interest rate of 7.20%, with a maturity date of August 2018, collateralized by leased equipment.
- Capital lease #6 – Lease payable to Beckman Coulter, payable in monthly installments of \$1,678, carrying an effective interest rate of 7.34%, with a maturity date of June 2018, collateralized by leased equipment.
- Capital lease #7 – Lease payable to Philips Medical, payable in monthly installments of \$2,523, carrying an effective interest rate of 16.00%, with a maturity date of July 2020, collateralized by leased equipment.
- Capital lease #8 – Lease payable to Philips Medical, payable in monthly installments of \$3,109, carrying an effective interest rate of 14.00%, with a maturity date of July 2020, collateralized by leased equipment.
- Capital lease #9 – Lease payable to Dell Financial Services, payable in monthly installments of \$3,071, carrying an effective interest rate of 1.80%, with a maturity date of September 2018, collateralized by leased equipment.

The following is a schedule of the long-term debt principal and interest maturities and future minimum lease payments on the capital lease obligations for each of the next four years:

For the Years Ending December 31,	Long-Term Debt		Capital Lease Obligations	
	Principal	Interest	Principal	Interest
2017	\$ 635,000	\$ 9,874	\$ 129,851	\$ 28,471
2018	-	-	94,913	18,878
2019	-	-	57,271	10,313
2020	-	-	37,538	1,887
Totals	<u>\$ 635,000</u>	<u>\$ 9,874</u>	<u>\$ 319,573</u>	<u>\$ 59,549</u>

The amount of interest cost incurred in 2016 and 2015 was \$72,861 and \$76,622, respectively, all of which was charged to operations.

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
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**NOTE 7 – SECTION 1115 DEMONSTRATION WAIVER PROGRAM**

**Uncompensated Care** - The Hospital participated in the Section 1115 Demonstration Waiver Program, a program designed to benefit rural community hospitals. This program is facilitated through the Hospital providing an intergovernmental transfer whereby federal matching funds are provided to supplement the Hospital for the shortfall in Medicaid funding. In connection with this program, the Hospital provided intergovernmental transfers of \$1,172,625 and \$325,885, and received \$2,757,978 and \$784,436 for the years ended December 31, 2016 and 2015, respectively. The Hospital recognized revenue of \$1,585,353 and \$458,551 for the years ended December 31, 2016 and 2015, respectively. The net revenue is included in net patient service revenue in the accompanying statements of revenues, expenses, and changes in net position.

**Delivery System Reform Incentive Program** – As part of the Section 1115 Demonstration Waiver Program, the Hospital is eligible to receive incentive payments through the Delivery System Reform Incentive Program (DSRIP). This incentive program is designed to improve the experience of care, improve the health of populations, and containing costs. By participating in the DSRIP program, the Hospital provides an intergovernmental transfer to finance the non-federal share of the incentive payments. In connection with this program, the Hospital provided intergovernmental transfers of \$949,104 and received \$2,206,041 for the year ended December 31, 2016, and provided intergovernmental transfers of \$1,108,469 and received \$2,632,481 for the year ended December 31, 2015. Additionally, the Hospital recorded a net receivable in the amount of \$1,068,346 and \$891,090 for the years ended December 31, 2016 and 2015, respectively. The receivables are included in other receivables in the accompanying statements of net position. The Hospital recognized net revenue of \$1,434,193 and \$1,056,301 for the years ended December 31, 2016 and 2015, respectively.

**Indigent Care Affiliation Agreement** – Under the Section 1115 Demonstration Waiver Program, the Hospital is part of an indigent care affiliation agreement with the Service Organization of Concho Valley, a non-profit corporation, and affiliated hospitals. This agreement is intended to increase funding for the Medicaid population and to access federal funding for the indigent population. Under this program, Pecos County transfers, on behalf of the Hospital, certain government funds to the State of Texas. The Service Organization of Concho Valley then provides care to the Medicaid and non-Medicaid indigent in the region and surrounding communities. These services were valued at \$852,512 and \$860,820 as of December 31, 2016 and 2015, respectively. As part of the affiliation agreement, Pecos County provided, on behalf of the Hospital, \$850,000 and \$658,038 in funding to the program for the years ended December 31, 2016 and 2015, respectively. Additionally, at December 31, 2016, Pecos County funded, on behalf of the Hospital, \$225,000 which has been recorded as a prepaid expense and is included in prepaid and other current assets in the accompanying statements of net position.

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**NOTE 8 – ELECTRONIC HEALTH RECORDS INCENTIVE PROGRAM**

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records (E.H.R.) technology. Payments under the Medicare program are generally made for up to four years based upon a statutory formula. Payments under the Medicaid program are generally made for up to four years based on a statutory formula, as determined by the State, which is approved by the Center for Medicare and Medicaid Services. Payments under both programs are contingent on the Hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the administrative contractor. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Hospital recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period. In 2015, the Hospital has recorded revenue of \$359,483 under the Medicare and Medicaid programs. In 2016, the Hospital did not meet meaningful use requirements.

**NOTE 9 - MEDICAID DISPROPORTIONATE SHARE FUNDS**

The Indigent Health Care and Treatment Act, passed by the 69th Texas Legislature in 1985, first apportioned funds to the Texas Department of Human Services (DHS) to provide assistance to hospitals providing a disproportionate share (DSH) of inpatient indigent health care. The State of Texas created a mechanism whereby intergovernmental transfers were made between selected district and county hospitals to generate additional federal matching funds. Hospitals participating in the Medicaid program that meet the conditions of participation and that serve a disproportionate share of low-income patients as defined by state law are eligible for additional reimbursement from the disproportionate share hospital fund. There are direct and indirect implied expectations regarding the purposes of this funding. The focus of the fund is to benefit the health care needs of the medically indigent, including recipients of Medicaid benefits, those eligible for Medicaid benefits, the uninsured, and others for whom the cost of medical and hospital care has exceeded their ability to pay. However, state and federal law offer considerable flexibility to recipient hospitals regarding specific use of the funds. In connection with this program, the Hospital provided intergovernmental transfers of \$691,115 and \$696,265 and received \$1,647,903 and \$2,488,185 for the years ended December 31, 2016 and 2015, respectively. At December 31, 2015, the Hospital recorded a liability of \$335,856 for a pay-back of a portion of the 2011 disproportionate share funds received. The Hospital recognized revenue of \$956,788 and \$1,456,064 for the years ended December 31, 2016 and 2015, respectively. The respective net revenue is included in net patient service revenue in the accompanying statements of revenues, expenses, and changes in net position.

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**NOTE 10 – DEFERRED COMPENSATION PENSION PLAN**

The Hospital sponsors a defined contribution pension plan (“Plan”) covering substantially all employees through the Pecos County Memorial Hospital Deferred Compensation Plan. The Hospital does not contribute to the Plan. The Plan provides for deferral of a portion of the employees’ current compensation until death, retirement, severance from employment, or other event. Each employee is eligible to participate in the Plan and defer compensation immediately upon becoming employed by the Hospital. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital’s Board of Managers. Contributions actually made by plan members aggregated \$100,815 and \$101,230 during December 31, 2016 and 2015, respectively. There are currently 15 employees participating in this plan.

**NOTE 11 – PENSION PLAN**

***Plan Description***

The Hospital contributes to the Texas County and District Retirement System (TCDRS), an agent multiple-employer defined benefit pension plan (“Plan”) covering all full-time and part-time non-temporary employees, regardless of the number of hours they work in a year. Employees in a temporary position are not eligible for membership. The Plan is administered by a board of trustees appointed by TCDRS. Benefit provisions are contained in the plan document and were established and can be amended by action of the Hospital’s governing body within the options available in the state statutes governing TCDRS. The Plan does not issue a separate report that includes financial statements and required supplementary information for the Plan. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The most recent CAFR for TCDRS can be found at the following link, [www.tcdrs.org](http://www.tcdrs.org).

***Benefits Provided***

The Plan provides retirement, disability and survivor benefits to Plan members and their beneficiaries. Benefit amounts are determined by the sum of the employee’s contributions to the Plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the Hospital within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the commitment of the Hospital to contribute to the Plan. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated contributions and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by TCDRS.

Members can retire at ages 60 and above with 10 or more years of service or with 30 years regardless of age, or when the sum of their age and years of service equals 80 or more. Members are vested after 10 years but must leave their accumulated contributions in the Plan to receive any employer-financed benefit. Members who withdraw their personal contributions in a lump sum are not entitled to any amounts contributed by the employer.

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**NOTE 11 – PENSION PLAN (CONTINUED)**

***Benefits Provided (Continued)***

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

	<u>2015</u>	<u>2014</u>
Inactive Employees or Beneficiaries Currently Receiving Benefits	75	12
Inactive Employees Entitled to but not Yet Receiving Benefits	91	141
Active Employees	<u>217</u>	<u>234</u>
Total	<u><u>383</u></u>	<u><u>387</u></u>

***Contributions***

The Hospital’s governing body has the authority to establish and amend the contribution requirements of the Hospital and active employees.

The Hospital establishes rates based on the annually determined rate plan provisions of the TCDRS Act. The Plan is funded by monthly contributions from both the employee members and the employer based on the covered payroll of employee members. Plan members are required to contribute 5.7% of their annually covered salary. Under the TCDRS Act, rates are based on an actuarially determined rate recommended by an independent actuary. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

The Hospital is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the Plan years ended December 31, 2015 and 2014, employees contributed approximately \$885,000 and \$880,000, or 5.7% and 5.9%, of covered payroll, respectively, and the Hospital contributed approximately \$1,200,000 and \$1,080,000, or 7.5% and 7.4% of covered payroll, respectively, to the Plan.

***Net Pension Liability***

At December 31, 2016 and 2015, the Hospital’s net pension liability was measured as of December 31, 2015 and 2014, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

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**NOTE 11 – PENSION PLAN (CONTINUED)**

*Net Pension Liability (Continued)*

The total pension liability in the December 31, 2015 and 2014 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Amortization Method	Straight-line amortization over Expected Working Life
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Inflation	3.0%
Salary Increases	Varies by entry-age group and length of service; 4.9% average over career including inflation

Mortality rates were based as follows:

Depositing Members	The RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that.
Service Retirees, Beneficiaries, and Non-depositing Members	The RP-2000 Combined Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with a one-year set-forward for males and no age adjustment for females.
Disabled Retirees	RP-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale after that, with no age adjustment for males and a two-year set-forward for females.

Updated mortality assumptions were adopted in 2015. All other actuarial assumptions that determined the total pension liability as of December 31, 2015 were based on the results of an actuarial experience study for the period January 1, 2009 – December 31, 2012, except where required to be different by GASB 68.

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



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**NOTE 11 – PENSION PLAN (CONTINUED)**

*Net Pension Liability (Continued)*

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected minus Inflation)
U.S Equities	14.50%	5.45%
Private Equity	14.00%	8.45%
Global Equities	1.50%	5.75%
International Equities-Developed	10.00%	5.45%
International Equities-Emerging	8.00%	6.45%
Investment-Grade Bonds	3.00%	1.00%
High-Yield Bonds	3.00%	5.10%
Opportunistic Credit	2.00%	5.09%
Direct Lending	5.00%	6.40%
Distressed Debt	3.00%	8.10%
REIT Equities	3.00%	4.00%
Master Limited Partnerships (MLP's)	3.00%	6.80%
Private Real Estate Partnerships	5.00%	6.90%
Hedge Funds	25.00%	5.25%
	100.00%	

***Discount Rate***

The discount rate used to measure the total pension liability was 8.10% at December 31, 2015 and 2014. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and Hospital contributions will be made at rates equal to the difference between actuarially determined contribution rates and the employee rate. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

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**NOTE 11 – PENSION PLAN (CONTINUED)**

*Discount Rate (Continued)*

The following table summarizes the changes in the net pension liability as of December 31, 2015, the valuation date:

Changes in Net Pension Liability	Increase (Decrease)		
	<u>Total Pension Liability</u>	<u>Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Balances as of December 31, 2014	\$ 39,129,543	\$ 36,634,935	\$ 2,494,608
Changes for the Year:			
Service Cost	1,516,588	-	1,516,588
Interest on Total Pension Liability	2,937,205	-	2,937,205
Effect of Plan Changes	(260,719)	-	(260,719)
Effect of Economic/Demographic Gains or Losses	(644,910)	-	(644,910)
Effect of Assumptions Changes or Inputs	473,267	-	473,267
Refund of Contributions	(229,609)	(229,609)	-
Benefit Payments	(1,544,343)	(1,544,343)	-
Administrative Expenses	-	(24,500)	24,500
Member Contributions	-	823,946	(823,946)
Net Investment Income	-	(55,886)	55,886
Employer Contributions	-	1,106,442	(1,106,442)
Other	-	53,249	(53,249)
Balances as of December 31, 2015	<u>\$ 41,377,022</u>	<u>\$ 36,764,234</u>	<u>\$ 4,612,788</u>

**PECOS COUNTY MEMORIAL HOSPITAL  
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**NOTE 11 – PENSION PLAN (CONTINUED)**

*Discount Rate (Continued)*

The following table summarizes the changes in the net pension liability as of December 31, 2014, the valuation date:

Changes in Net Pension Liability	Increase (Decrease)		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability
Balances as of December 31, 2013	\$ 36,390,773	\$ 34,053,003	\$ 2,337,770
Changes for the Year:			
Service Cost	1,529,545	-	1,529,545
Interest on Total Pension Liability	2,938,682	-	2,938,682
Effect of Plan Changes	-	-	-
Effect of Economic/Demographic Gains or Losses	25,986	-	25,986
Effect of Assumptions Changes or Inputs	-	-	-
Refund of Contributions	(136,316)	(136,316)	-
Benefit Payments	(1,619,127)	(1,619,127)	-
Administrative Expenses	-	(27,229)	27,229
Member Contributions	-	865,836	(865,836)
Net Investment Income	-	2,318,640	(2,318,640)
Employer Contributions	-	1,187,985	(1,187,985)
Other	-	(7,857)	7,857
Balances as of December 31, 2014	<u>\$ 39,129,543</u>	<u>\$ 36,634,935</u>	<u>\$ 2,494,608</u>

**Sensitivity to the Net Pension Liability to Changes in the Discount Rate** – The following presents the net pension liability of the Hospital, calculated using the discount rate of 8.10%, as well as what the Hospital’s net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (7.10%) or 1-percentage-point higher (9.10%) than the current rate:

	2015		
	1% Decrease	Current	1% Increase
	7.10%	8.10%	9.10%
Total Pension Liability	\$ 43,695,391	\$ 41,377,022	\$ 34,262,957
Fiduciary Net Position	<u>36,764,234</u>	<u>36,764,234</u>	<u>36,764,234</u>
Net Pension (Asset)/Liability	<u>\$ 6,931,157</u>	<u>\$ 4,612,788</u>	<u>\$ (2,501,277)</u>

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**NOTE 11 – PENSION PLAN (CONTINUED)**

*Discount Rate (Continued)*

	2014		
	1% Decrease	Current Discount Rate	1% Increase
	<u>7.10%</u>	<u>8.10%</u>	<u>9.10%</u>
Total Pension Liability	\$ 44,249,995	\$ 39,129,543	\$ 34,929,625
Fiduciary Net Position	<u>36,634,935</u>	<u>36,634,935</u>	<u>36,634,935</u>
Net Pension (Asset)/Liability	<u>\$ 7,615,060</u>	<u>\$ 2,494,608</u>	<u>\$ (1,705,310)</u>

**Pension Plan Fiduciary Net Position** – Detailed information about the pension plan’s fiduciary net position is available in the separately issued TCDRS financial report.

***Pension (Income) Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

For the years ended December 31, 2016 and 2015, the Hospital recognized pension (income) expense of \$236,444 and \$249,757, respectively. At December 31, 2016, the Hospital reported deferred outflows of resources and deferred inflows of resources related to the TCDRS defined benefit pension plan from the following sources:

	2016	
	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	\$ -	\$ 12,993
Changes in Assumptions or Inputs	-	-
Net Difference Between Projected and Actual Earnings	-	2,557,887
Contributions Made Subsequent to Measurement Date	N/A	1,034,169
	2015	
	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	\$ -	\$ 19,489
Changes in Assumptions or Inputs	-	-
Net Difference Between Projected and Actual Earnings	-	381,870
Contributions Made Subsequent to Measurement Date	N/A	1,193,222

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**NOTE 11 – PENSION PLAN (CONTINUED)**

***Pension (Income) Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions (Continued)***

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to the TCDRS defined benefit pension plan, excluding contributions made subsequent to measurement date, will be recognized in pension expense as follows:

Year Ended December 31:	
2016	619,509
2017	619,509
2018	613,485
2019	567,870

**NOTE 12 – POST-EMPLOYMENT HEALTH CARE PLAN**

***Plan Description***

The County offers post-employment medical benefits to its retirees (and their dependents) who are eligible for immediate pension benefits at the time of retirement through the Hospital’s defined benefit pension plan (“Plan”). Medical benefits are self-funded with stop-loss coverage. All benefits renew on a calendar year basis. The Plan is a single-employer plan administered by a third-party administrator and does not issue stand-alone financial statements.

***Funding Policy***

The contribution requirements of Plan members and the County are established and may be amended by the County Commissioners. The required contribution is based on a pay-as-you-go financing requirement. For fiscal years 2016 and 2015, the Hospital contributed approximately \$399,000 and \$406,000, respectively, to the Plan. For fiscal years 2016 and 2015, the Hospital has not funded the Plan and has a total of 185 participants eligible to receive benefits.

***Annual OPEB Cost and Net OPEB Obligation***

The Hospital’s annual other post-employment benefits (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal costs each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years. The current portion of the OPEB obligation is included in accrued payroll, benefits, and related liabilities in the statements of net position. The following table shows the components of the Hospital’s annual OPEB cost, the amount actually contributed to the plan and changes in the Hospital’s net OPEB obligation for the years ended December 31:

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**NOTE 12 – POST-EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

*Annual OPEB Cost and Net OPEB Obligation (Continued)*

	<u>2016</u>	<u>2015</u>
Annual Required Contribution	\$ 4,088,327	\$ 3,337,155
Interest on Net OPEB Obligation	<u>644,034</u>	<u>506,546</u>
Annual OPEB Cost (Expense)	4,732,361	3,843,701
Contributions Made	<u>(1,312,089)</u>	<u>(406,484)</u>
Increase in Net OPEB Obligation	3,420,272	3,437,217
Net OPEB Obligation, Beginning of Year	<u>16,101,072</u>	<u>12,663,855</u>
Net OPEB Obligation, End of Year	<u><u>\$ 19,521,344</u></u>	<u><u>\$ 16,101,072</u></u>

The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for 2016 and the two preceding years were as follows:

<u>Fiscal Year Ended December 31,</u>	<u>Annual OPEB Cost</u>	<u>Percentage Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
2016	\$ 3,420,272	10.4%	\$ 19,521,344
2015	\$ 3,437,217	11.8%	\$ 16,101,072
2014	\$ 3,402,015	9.0%	\$ 12,663,855

***Funding Status and Funding Progress***

As of January 1, 2016, the most recent actuarial valuation date, the Hospital Plan was not funded. The actuarial accrued liability for benefits was \$27.2 million, and since the Plan is funded on a pay-as-you-go basis, this results in an unfunded actuarial accrued liability (UAAL) of \$27.2 million for the year ended December 31, 2016. The covered payroll (annual payroll of active employees covered by the Plan) and the ratio of the UAAL to the covered payroll are not available.

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**NOTE 12 – POST-EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

***Funding Status and Funding Progress (Continued)***

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the health care cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The Schedule of Funding Progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The Schedule of Funding Progress presents information related to the Plan as a whole, of which the Hospital participates with the County and should provide information helpful for understanding the scale of the information presented relative to the Hospital.

***Actuarial Methods and Assumptions***

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2016 actuarial valuation, the projected unit credit actuarial cost method was used. The actuarial assumptions included a 4% investment rate of return (net of administrative expenses), which is the County's expected long-term investment return on the employer's own investments since the Plan is funded on a pay-as-you-go basis, and an annual health care cost trend rate of 5.0% initially, reduced by decrements to an ultimate rate of 4.5% after 70 years. The UAAL is being amortized as a level dollar amount on a closed period amortization basis. The remaining amortization period at January 1, 2016, was 23 years.

The following is a schedule of the projected benefit payments for each of the next five fiscal years and the aggregate remaining fiscal years thereafter. The total net claims include medical claims offset by retiree premiums. This projection is based on the population used in this valuation and makes no provision for future hires. In addition, it will only be realized if all assumptions are met.

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**NOTE 12 – POST-EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

*Actuarial Methods and Assumptions (Continued)*

	<u>Projected Benefit Payments</u>
2017	\$ 432,000
2018	554,016
2019	601,121
2020	631,062
2021	681,918
Thereafter	<u>17,715,289</u>
Total	<u>\$ 20,615,406</u>

**NOTE 13 - COMMITMENTS AND CONTINGENCIES**

**Litigation** – The Hospital, from time to time, is subject to claims and suits for damages, including damages for personal injuries to patients and others, most of which are covered as to risk and amount. In the opinion of management, the ultimate resolution of pending legal proceedings will not have a material effect on the Hospital’s financial position or result of operations.

**Leases** – The Hospital leases various equipment and facilities under operating leases expiring at various dates. Total rental expense, including operating leases, in 2016 and 2015 was \$68,008 and \$93,709, respectively.

**NOTE 14 – MEDICAL MALPRACTICE CLAIMS**

The Hospital is a unit of government covered by the Texas Tort Claims Acts which, by statute, limits its liability to \$100,000 per person/\$300,000 per occurrence. These limits coincide with the malpractice insurance coverage maintained by the Hospital. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Hospital’s claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.



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DECEMBER 31, 2016 AND 2015**

**NOTE 15 – CHANGE IN ACCOUNTING PRINCIPLE**

During 2015, the Hospital implemented the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions, an amendment of GASB Statement No. 27* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date, an amendment of GASB Statement No. 68*. The Statements improve accounting for defined benefit pension plans and contributions made subsequent to the actuarial valuation measurement date. In addition to making changes to how annual pension expense is to be calculated for defined benefit pension plans, the standards also require that governmental entities record an asset or liability in their financial statements that is equal to the net pension asset or liability. Historically, governmental entities have only been required to record a liability, if any, for the difference between annual pension cost (APC) and the amount of APC contributed to the plan. Restatement of prior period's financial statements is not practical because prior year information calculated under the provisions of GASB Statement No. 68 is not available; accordingly, the Hospital has reported the cumulative effect of applying GASB Statement No. 68 as a restatement of net position as of January 1, 2015. This restatement decreased previously reported net position by \$1,149,784.

**NOTE 16 – SUBSEQUENT EVENTS**

On May 23, 2017, the Hospital was approved to participate in the Medicare program as a critical access hospital (CAH). The effective date of the change was February 24, 2017, the date the Hospital met all Federal requirements. Under the CAH status, the Hospital must meet certain operational requirements and is subject to changes in reimbursement under the Medicare program.

The date to which events occurring after December 31, 2016, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosure is July 14, 2017, which is the date on which the financial statements were available to be issued.

**Required Supplementary Information**

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
REQUIRED SUPPLEMENTARY INFORMATION  
DECEMBER 31, 2016**

**Schedule of Changes in the Hospital's Net Pension Liability  
and Related Ratios**

	2015	2014
Total Pension Liability		
Service Cost	\$ 1,516,589	\$ 1,529,545
Interest on Total Pension Liability	2,937,205	2,938,682
Effect of Plan Changes	(260,719)	-
Effect of Assumption Changes or Inputs	473,267	-
Effect of Economic/Demographic (Gains) or Losses	(644,910)	25,986
Benefit Payments/Refunds of Contributions	(1,773,952)	(1,755,443)
Net Change in Total Pension Liability	2,247,479	2,738,770
Total Pension Liability, Beginning	39,129,543	36,390,773
Total Pension Liability, Ending	\$ 41,377,022	\$ 39,129,543
Fiduciary Net Position		
Employer Contributions	\$ 1,106,442	\$ 1,187,985
Member Contributions	823,946	865,836
Investment Income Net of Investment Expenses	(55,886)	2,318,640
Benefit Payments/Refunds of Contributions	(1,773,952)	(1,755,443)
Administrative Expenses	(24,500)	(27,229)
Other	53,249	(7,857)
Net Changes in Fiduciary Net Position	129,299	2,581,932
Fiduciary Net Position, Beginning	36,634,935	34,053,003
Fiduciary Net Position, Ending	\$ 36,764,234	\$ 36,634,935
Net Pension Liability/(Asset), Ending	\$ 4,612,788	\$ 2,494,608
Fiduciary Net Position as a % of Total Pension Liability	88.85%	93.62%
Pensionable Covered Payroll	\$ 11,770,657	\$ 12,356,371
Net Pension Liability as a % of Covered Payroll	39.19%	20.19%

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

See independent auditor's report on required supplementary information.

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)  
DECEMBER 31, 2016**

**Schedule of Employer Contributions**

Year Ending December 31,	Actuarially Determined Contribution	Actual Employer Contribution	Contribution Deficiency (Excess)	Pensionable Covered Payroll (1)	Actual Contribution as a % of Covered Payroll
2006	\$ 433,464	\$ 433,464	\$ -	\$ 6,201,207	7.0%
2007	478,504	478,504	-	6,510,259	7.4%
2008	497,164	497,164	-	7,163,746	6.9%
2009	565,573	565,573	-	7,822,590	7.2%
2010	695,026	695,026	-	8,264,279	8.4%
2011	738,846	738,846	-	9,189,632	8.0%
2012	909,247	909,247	-	10,227,747	8.9%
2013	1,093,330	1,093,330	-	11,484,560	9.5%
2014	1,186,211	1,187,985	(1,773)	12,395,371	9.6%
2015	1,106,442	1,106,442	-	11,770,657	9.4%

*(1) Payroll is calculated based on contributions as reported to TCDRS*

See independent auditor's report on required supplementary information.

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)  
DECEMBER 31, 2016**

**Notes to Schedule of Employer Contributions:**

*Valuation Date:* Actuarially determined contribution rates are calculated as of January 1, one year prior to the end of the fiscal year in which contributions are reported.

*Methods and Assumptions Used to Determined Contributions Rates:*

Actuarial Cost Method	Entry Age Normal
Amortization Method	Straight-line amortization over Expected Working Life
Asset Valuation Method	
Smoothing period	5 years
Recognition method	Non-asymptotic
Inflation	3.0%
Salary Increases	Varies by entry-age group and length of service; 4.9% average over career including inflation
Investment Rate of Return	8.10%
Retirement Age	Members were are eligible for service retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 60.
Mortality	In the 2015 actuarial valuation, assumed life expectancies were adjusted as a result of adopting a new projection scale (110% of the MP-2014 Ultimate Scale) for 2014 and later. Previously, Scale AA had been used. The base table is the RP-2000 table projected with Scale AA to 2014.

No changes in plan provisions are reflected in the Schedule of Employer Contributions.

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

See independent auditor's report on required supplementary information.

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)  
DECEMBER 31, 2016**

**Post-Employment Healthcare Plan:**

The schedule of funding progress for Pecos County's post-employment healthcare plan, presented below, presents multi-year trend information about whether the actuarial value of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

**Schedule of Funding Progress**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Underfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll (c)	OAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2013	\$ -	\$ 38,301,102	\$ 38,301,102	0.00%	N/A	N/A
12/31/2015	-	50,588,953	50,588,953	0.00%	N/A	N/A
12/31/2017	-	70,528,753	70,528,753	0.00%	N/A	N/A

See independent auditor's report on required supplementary information.

## **Other Financial Information**

# DURBIN & COMPANY, L. L. P.

Certified Public Accountants

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Lubbock, Texas 79413  
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## INDEPENDENT AUDITOR'S REPORT ON OTHER FINANCIAL INFORMATION

Board of Managers  
Pecos County Memorial Hospital  
(An Enterprise Fund of Pecos County, Texas)  
Fort Stockton, Texas

We have audited the financial statements of Pecos County Memorial Hospital, an enterprise fund of Pecos County, Texas, as of and for the years ended December 31, 2016 and 2015, and our report thereon dated July 14, 2017, which expressed an unmodified opinion on those financial statements, appears at the beginning of this report. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The other financial information is presented for the purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Durbin & Company, L.L.P.*

Durbin & Company, L.L.P.  
Lubbock, Texas  
July 14, 2017



**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
REVENUE FROM ROUTINE AND ANCILLARY SERVICES  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Routine Services:		
Routine Services	\$ 9,025,305	\$ 12,923,262
Nursery	355,482	351,548
Total Routine Services	<u>9,380,787</u>	<u>13,274,810</u>
Ancillary and Other Services:		
Inpatient:		
Operating Room	1,879,489	2,233,458
Delivery and Labor	129,040	117,336
Radiology and Nuclear Medicine	2,453,461	2,969,071
Laboratory	720,897	1,053,705
Blood	72,485	155,007
Respiratory Therapy	3,548,165	6,266,336
Physical Therapy	16,567	34,369
Medical Supplies Charged to Patients	20,919	28,898
Drugs Charged to Patients	1,484,524	2,903,619
Emergency	527,074	922,156
Total Inpatient Ancillary Services	<u>10,852,621</u>	<u>16,683,955</u>

See independent auditor's report on other financial information.

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
REVENUE FROM ROUTINE AND ANCILLARY SERVICES (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Outpatient:		
Operating Room	\$ 4,450,200	\$ 5,331,776
Delivery and Labor	96,147	69,099
Radiology and Nuclear Medicine	4,513,468	5,621,124
Laboratory	2,991,522	3,077,187
Blood	111,481	80,349
Respiratory Therapy	2,108,888	1,777,787
Physical Therapy	1,445,430	1,249,171
Medical Supplies Charged to Patients	30,282	23,590
Drugs Charged to Patients	1,821,553	1,704,456
Sleep Lab	6,246	318,546
Family Care Center	5,538,403	7,103,917
George Rural Health Clinic	2,570,698	2,538,669
Sanderson Rural Health Clinic	290,136	332,431
Marathon Rural Health Clinic	43,071	38,367
Emergency Room	5,991,611	6,399,286
Home Health	1,378,084	1,080,566
Hospice	1,099,030	716,818
340B Drug Program	1,205,948	876,391
Total Outpatient Ancillary Services	<u>35,692,198</u>	<u>38,339,530</u>
 Gross Patient Revenue	 <u>\$ 55,925,606</u>	 <u>\$ 68,298,295</u>

See independent auditor's report on other financial information.

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
NET PATIENT REVENUE AND OTHER OPERATING REVENUE  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Gross Patient Revenue	\$ 55,925,606	\$ 68,298,295
Deductions from Revenue:		
Charity	(4,049,474)	(3,880,635)
Third-Party Contractual Adjustments	(30,657,879)	(38,477,597)
Provision for Bad Debts	(2,902,445)	(4,059,110)
Medicaid Supplemental Payments and Other Credits	<u>2,543,466</u>	<u>1,914,615</u>
Total Deductions from Revenue	<u>(35,066,332)</u>	<u>(44,502,727)</u>
Net Patient Service Revenue	<u>\$ 20,859,274</u>	<u>\$ 23,795,568</u>
Electronic Medical Records Stimulus	<u>\$ -</u>	<u>\$ 359,483</u>
Delivery System Reform Incentive Program	<u>\$ 1,434,193</u>	<u>\$ 1,056,301</u>
Other Operating Revenue:		
Office Rents	\$ 177,474	\$ 163,643
Sale of Non-Patient Meals	28,141	35,851
Medical Records	4,466	5,451
Wellness Center	75,752	109,818
Miscellaneous	<u>4,266</u>	<u>42,246</u>
Total Other Operating Revenue	<u>\$ 290,099</u>	<u>\$ 357,009</u>

See independent auditor's report on other financial information.

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
OPERATING EXPENSES  
FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
Routine Services	\$ 1,645,413	\$ 1,689,813
Ancillary Services:		
Operating Room	1,132,057	1,086,498
Delivery and Labor	410,154	393,583
Radiology and Nuclear Medicine	952,772	1,266,075
Laboratory	1,408,296	1,598,505
Blood	85,052	119,238
Respiratory Therapy	543,584	598,625
Physical Therapy	350,386	398,657
Medical Supplies Charged to Patients	700,273	226,254
Drugs Charged to Patients	818,730	677,566
Sleep Lab	5,217	65,251
Family Care Center	3,462,859	4,518,868
George Rural Health Clinic	1,756,896	1,664,221
Sanderson Rural Health Clinic	289,938	222,064
Marathon Rural Health Clinic	58,209	73,219
Emergency	2,036,222	1,969,875
Home Health	801,023	884,462
Hospice	490,415	424,250
Wellness Center	96,153	114,537
Total Ancillary Services	<u>15,398,236</u>	<u>16,301,748</u>

See independent auditor's report on other financial information.

**PECOS COUNTY MEMORIAL HOSPITAL**  
**(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)**  
**OPERATING EXPENSES (CONTINUED)**  
**FOR THE YEARS ENDED DECEMBER 31, 2016 AND 2015**

	<u>2016</u>	<u>2015</u>
General Services:		
Operation and Plant	\$ 1,431,721	\$ 1,237,074
Laundry and Linen	33,739	47,992
Housekeeping	414,941	467,255
Dietary	354,326	411,049
Total General Services	<u>2,234,727</u>	<u>2,163,370</u>
Administrative Services:		
Salaries	946,004	1,387,021
Other Operating	37,851	41,818
Employee Benefits	7,956,568	8,044,998
Supplies	7,700	14,787
Medical Records	672,818	514,288
Nursing Administration	722	1,188
Social Services	52,202	58,773
Other Office Expenses	87,567	111,294
Travel and Seminars	9,182	12,300
Insurance	65,427	79,458
Legal and Accounting Fees	123,731	134,014
Purchased Services	944,865	876,500
Physician Recruitment	97,306	52,013
Dues and Subscriptions	73,413	18,825
Collection Fees	253,222	52,699
Total Administrative Services	<u>11,328,578</u>	<u>11,399,976</u>
Depreciation and Amortization	<u>1,727,920</u>	<u>1,756,538</u>
Total Operating Expenses	<u><u>\$ 32,334,874</u></u>	<u><u>\$ 33,311,445</u></u>

See independent auditor's report on other financial information.