

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

AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016

→DURBIN&CO.

Certified Public Accountants

2950 50th Street
Lubbock, Texas 79413
(806) 791-1591
Fax (806) 791-3974

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, 2017 and 2016, 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, 2017 and 2016, 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 31 through 34 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 17, 2018

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

MANAGEMENT'S DISCUSSION & ANALYSIS

AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016

PECOS COUNTY MEMORIAL HOSPITAL
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)
MANAGEMENT'S DISCUSSION AND ANALYSIS
DECEMBER 31, 2017 AND 2016
(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, 2017 and 2016. 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 \$3,919,709, or 81.0%, decrease in 2017 and a \$7,163,725, or 308.6%, decrease in 2016.
- Net patient service revenue decreased \$1,190,340, or 5.7%, in 2017 and decreased \$2,936,294, or 12.3%, in 2016.
- Total operating expenses decreased \$1,506,181, or 4.7%, in 2017 and decreased \$976,571, or 2.9%, in 2016.

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, 2017 AND 2016
(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 \$3,919,709, or 81.0%, in 2017 and \$7,163,725, or 308.6%, in 2016, as you can see below.

Table 1: Assets, Liabilities, and Net Position

	2017	2016	2015 (Restated)
Assets and Deferred Outflows of Resources:			
Current Assets	\$ 7,154,251	\$ 5,586,221	\$ 8,134,793
Capital Assets (Net)	13,938,744	15,079,505	17,396,792
Total Assets	21,092,995	20,665,726	25,531,585
Deferred Outflows of Resources	3,959,999	3,959,999	1,594,581
Total Assets and Deferred Outflows of Resources	<u>\$ 25,052,994</u>	<u>\$ 24,625,725</u>	<u>\$ 27,126,166</u>
Liabilities and Deferred Inflows of Resources:			
Long-Term Debt Outstanding	\$ 196,754	\$ 954,573	\$ 1,802,363
Other Current and Non-Current	32,499,379	28,029,492	23,002,100
Deferred Inflows of Resources	483,682	483,682	-
Total Liabilities and Deferred Inflows of Resources	33,179,815	29,467,747	24,804,463
Net Position:			
Net Investment in Capital Assets	13,741,990	14,124,932	15,594,429
Unrestricted	(21,868,811)	(18,966,954)	(13,272,726)
Total Net Position	<u>(8,126,821)</u>	<u>(4,842,022)</u>	<u>2,321,703</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 25,052,994</u>	<u>\$ 24,625,725</u>	<u>\$ 27,126,166</u>

Significant components of the change in the Hospital’s net position are an increase in other receivables of approximately \$1M and an increase in other post-employment benefit liability of approximately \$3.7M.

PECOS COUNTY MEMORIAL HOSPITAL
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2017 AND 2016
(Unaudited)

OPERATING RESULTS AND CHANGES IN THE HOSPITAL'S NET POSITION

In 2017 and 2016, the Hospital's net position decreased \$3,919,709 and \$7,163,725, 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

	2017	2016	2015 (Restated)
Operating Revenues:			
Net Patient Service Revenue	\$ 19,668,934	\$ 20,859,274	\$ 23,795,568
Electronic Medical Records Stimulus	-	-	359,483
Delivery System Reform Incentive Program	1,603,067	1,434,193	1,056,301
Other Operating Revenue	334,020	290,099	357,009
Total Operating Revenue	<u>21,606,021</u>	<u>22,583,566</u>	<u>25,568,361</u>
Operating Expenses:			
Salaries, Wages, and Benefits	21,744,092	21,459,601	23,564,984
Other Operating Expenses	7,662,752	9,147,353	7,989,923
Depreciation/Amortization	1,421,849	1,727,920	1,756,538
Total Operating Expenses	<u>30,828,693</u>	<u>32,334,874</u>	<u>33,311,445</u>
Operating Loss	(9,222,672)	(9,751,308)	(7,743,084)
Nonoperating Revenues and Expenses:			
County Subsidy	4,836,026	3,455,312	4,573,127
Noncapital Grants/Contributions	17,318	11,638	39,856
Community Benefit Support	836,442	852,512	860,820
Intergovernmental Transfer Expense	(425,000)	(625,000)	(658,038)
Loss on Disposal of Assets	295	(1,081,479)	-
Other	8,952	(52,325)	(65,639)
Deficit of Revenues over Expenses Before Capital Grants and Contributions	(3,948,639)	(7,190,650)	(2,992,958)
Capital Grants and Contributions	<u>28,930</u>	<u>26,925</u>	<u>89,217</u>
Decrease in Net Position	<u>(3,919,709)</u>	<u>(7,163,725)</u>	<u>(2,903,741)</u>
Net Position, Beginning of Year, as Originally Reported	(4,842,022)	2,321,703	6,375,228
Adjustment for Change in Accounting Principle	-	-	(1,149,784)
Net Position, Beginning of Year, as Restated	<u>(4,842,022)</u>	<u>2,321,703</u>	<u>5,225,444</u>
Net Position, End of Year	<u>\$ (8,761,731)</u>	<u>\$ (4,842,022)</u>	<u>\$ 2,321,703</u>

**PECOS COUNTY MEMORIAL HOSPITAL
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)
DECEMBER 31, 2017 AND 2016
(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 (\$9,222,672) in 2017 and (\$9,751,308) in 2016. 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 a favorable decrease in operating loss in 2017 are:

- Net patient service revenue decreased \$1,190,340, or 5.7%
- Salaries, wages, and benefits expense increased \$284,491, or 1.3%
- Professional fees and purchased services decreased \$813,797, or 18.5%

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

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

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of County subsidies provided by Pecos County, Texas (the "County") and community benefit 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 \$411,442 and \$227,512 in 2017 and 2016, respectively.

Grants, Contributions, and Endowments

The Hospital received \$17,318 and \$11,638 in noncapital grants and contributions in 2017 and 2016, respectively, and received \$28,930 and \$26,925 in capital grants and contributions in 2017 and 2016, 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, 2017 AND 2016
(Unaudited)**

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of 2017, the Hospital had \$13,938,744 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 of the financial statements, compared to \$15,079,505 in 2016. In 2017 and 2016, the Hospital acquired \$281,088 and \$493,835, respectively, in capital assets.

Debt

At the end of 2017, the Hospital had long-term debt outstanding of \$196,754, as detailed in Note 6 of the financial statements, compared to \$954,573 in 2016. During 2017 and 2016, the Hospital assumed \$9,000 and \$-0-, respectively, in capital lease obligations. In 2017 and 2016, long-term debt payments made by Pecos County, Texas on behalf of the Hospital totaled \$635,000 and \$615,000, 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

AS OF AND FOR THE YEARS ENDED
DECEMBER 31, 2017 AND 2016

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

STATEMENTS OF NET POSITION

DECEMBER 31, 2017 AND 2016

ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:	<u>2017</u>	<u>2016</u>
CURRENT ASSETS		
Cash and Cash Equivalents	\$ 651,905	\$ 919,171
Patient Accounts Receivable, Net of Allowances	2,522,915	2,146,835
Estimated Third-Party Payor Settlements	527,962	-
Other Receivables	2,913,888	1,902,906
Inventory of Supplies	434,333	385,337
Prepaid and Other Current Assets	<u>103,248</u>	<u>231,972</u>
Total Current Assets	7,154,251	5,586,221
CAPITAL ASSETS,		
Net of Accumulated Depreciation	<u>13,938,744</u>	<u>15,079,505</u>
Total Assets	21,092,995	20,665,726
DEFERRED OUTFLOWS OF RESOURCES		
Difference Between Projected and Actual Earnings	2,090,611	2,557,887
Differences Between Expected and Actual Experience	6,497	12,993
Changes in Assumptions or Inputs	236,633	354,950
Contributions Subsequent to the Measurement Date	<u>1,063,560</u>	<u>1,034,169</u>
Total Deferred Outflows of Resources	<u>3,397,301</u>	<u>3,959,999</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 24,490,296</u>	<u>\$ 24,625,725</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, 2017 AND 2016

LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION:	<u>2017</u>	<u>2016</u>
CURRENT LIABILITIES		
Current Portion of Long-Term Debt	\$ 97,815	\$ 764,851
Accounts Payable	2,223,961	1,771,823
Accrued Payroll, Benefits, and Related Liabilities	1,679,930	1,556,499
Estimated Third-Party Payor Settlements	-	43,564
Other Accrued Liabilities	806,475	523,474
Other Post-Employment Benefit Obligation, Current Portion	<u>554,016</u>	<u>432,000</u>
Total Current Liabilities	5,362,197	5,092,211
NONCURRENT LIABILITIES		
Long-Term Debt, Net of Current Portion	98,939	189,722
Net Pension Liability	4,595,869	4,612,788
Other Post-Employment Benefit Obligation, Net of Current Portion	<u>22,622,209</u>	<u>19,089,344</u>
Total Noncurrent Liabilities	<u>27,317,017</u>	<u>23,891,854</u>
Total Liabilities	32,679,214	28,984,065
DEFERRED INFLOWS OF RESOURCES		
Difference Between Expected and Actual Experience	572,813	483,682
NET POSITION		
Net Investment in Capital Assets	13,741,990	14,124,932
Unrestricted	<u>(22,503,721)</u>	<u>(18,966,954)</u>
Total Net Position	<u>(8,761,731)</u>	<u>(4,842,022)</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 24,490,296</u>	<u>\$ 24,625,725</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, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES:		
Net Patient Service Revenue	\$ 19,668,934	\$ 20,859,274
Delivery System Reform Incentive Program	1,603,067	1,434,193
Other Operating Revenue	<u>334,020</u>	<u>290,099</u>
Total Operating Revenues	21,606,021	22,583,566
OPERATING EXPENSES:		
Salaries and Wages	13,150,948	13,601,384
Employee Benefits	8,593,144	7,858,217
Professional Fees and Purchased Services	3,576,549	4,390,346
Supplies and Other	2,034,057	2,480,471
Other Operating	2,052,146	2,276,536
Depreciation and Amortization	<u>1,421,849</u>	<u>1,727,920</u>
Total Operating Expenses	<u>30,828,693</u>	<u>32,334,874</u>
Operating Loss	(9,222,672)	(9,751,308)
NONOPERATING REVENUES (EXPENSES):		
County Subsidy	4,836,026	3,455,312
Noncapital Grants and Contributions	17,318	11,638
Community Benefit Support	836,442	852,512
Intergovernmental Transfer Expense	(425,000)	(625,000)
Investment Income	16,467	20,536
Interest Expense	(7,515)	(72,861)
Gain (Loss) on Disposal of Assets	295	(1,081,479)
Total Nonoperating Revenues (Expenses)	<u>5,274,033</u>	<u>2,560,658</u>
Deficit of Revenues Over Expenses Before Capital Grants and Contributions	(3,948,639)	(7,190,650)
Capital Grants and Contributions	<u>28,930</u>	<u>26,925</u>
Decrease in Net Position	(3,919,709)	(7,163,725)
Net Position, Beginning of Year	<u>(4,842,022)</u>	<u>2,321,703</u>
Net Position, End of Year	<u>\$ (8,761,731)</u>	<u>\$ (4,842,022)</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, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts From and on Behalf of Patients	\$ 18,899,231	\$ 21,915,403
Other Receipts and Payments, Net	1,031,203	1,382,402
Payments to Suppliers and Contractors	(2,689,939)	(1,837,341)
Payments to Employees	(21,057,963)	(24,143,277)
Net Cash Used by Operating Activities	(3,817,468)	(2,682,813)
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment Earnings	16,467	20,536
 CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Capital Grants and Contributions	28,930	26,925
County Subsidy for Capital Activities	819,758	1,022,106
Principal Payments on Long-Term Debt	(766,819)	(847,790)
Interest Payments on Long-Term Debt	(7,515)	(72,861)
Proceeds From Sale of Capital Assets	295	1,723
Purchase of Capital Assets	(272,088)	(493,835)
Net Cash Used by Capital and Related Financing Activities	(197,439)	(363,732)
 CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:		
County Subsidy for Operations	4,016,268	2,433,206
Noncapital Grants and Contributions	17,318	11,638
Payments for Intergovernmental Transfers	(302,412)	(850,000)
Net Cash Provided by Noncapital Financing Activities	3,731,174	1,594,844
 Net Decrease in Cash and Cash Equivalents	 (267,266)	 (1,431,165)
 Cash and Cash Equivalents, Beginning of Year	 919,171	 2,350,336
 Cash and Cash Equivalents, End of Year	 \$ 651,905	 \$ 919,171

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, 2017 AND 2016

	2017	2016
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating Loss	\$ (9,222,672)	\$ (9,751,308)
Adjustments to Reconcile Operating Loss to Net Cash		
Used by Operating Activities:		
Depreciation and Amortization	1,421,849	1,727,920
Provision for Bad Debt	2,143,297	2,902,445
Community Benefit Support	836,442	852,512
Pension Expense (Income)	634,910	236,444
Other Post-Employment Benefit Expense	3,654,881	3,420,272
(Increase) Decrease in:		
Accounts Receivable	(2,519,377)	(1,684,683)
Estimated Third-Party Payor Settlements	(527,962)	81,016
Other Receivables	(1,010,982)	(341,890)
Prepaid Expenses and Other Current Assets	(42,860)	385,519
Increase (Decrease) in:		
Accounts Payable	452,138	29,566
Accrued Salaries and Benefits Payable	123,431	(297,977)
Estimated Third-Party Payor Settlements	(43,564)	43,564
Other Accrued Liabilities	283,001	(286,213)
Net Cash Used by Operating Activities	\$ (3,817,468)	\$ (2,682,813)
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of Capital Assets Under Capital Lease Obligations	\$ 9,000	\$ -
Reduction of Long-Term Debt on Behalf of Hospital	\$ 635,000	\$ 615,000
Interest Expense Related to Reduction of Long-Term Debt	\$ 9,874	\$ 29,312

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, 2017 AND 2016**

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, 2017 and 2016, 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, 2017 AND 2016**

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
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

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
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

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. 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. 82 - The District has implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 82, *Pension Issues, an amendment of GASB Statements No. 67, No. 68, and No. 73*. This Statement improves the consistency in the application of pension accounting and financial reporting requirements by addressing certain issues that have been raised with respect to GASB statements No. 67, No. 68, and No. 73. The implementation of this Statement did not affect the change in net position for 2017 and 2016.

**PECOS COUNTY MEMORIAL HOSPITAL
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pending Adoption of Recent Accounting Pronouncements:

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.

GASB Statement No. 87 – In June 2017, GASB issued GASB Statement No. 87 – *Leases*. The objective of this Statement is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. The Statement is effective for reporting periods beginning after December 15, 2019. Management is currently evaluating the effect this pronouncement will have on the financial statements and related disclosures.

Accounting Pronouncements FASB - In May 2014, the Financial Accounting Standards Board (FASB) issued a new accounting pronouncement regarding revenue recognition effective for reporting periods beginning after December 15, 2018. Management does not expect the new standard to have a significant impact to its financial position, results of operations and related disclosures.

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.

**PECOS COUNTY MEMORIAL HOSPITAL
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 2 - NET PATIENT SERVICE REVENUE (CONTINUED)

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.

Net patient service revenue is comprised as follows:

	<u>2017</u>	<u>2016</u>
Routine Patient Services	\$ 2,606,772	\$ 3,065,726
Ancillary Patient Services:		
Inpatient	8,725,313	10,852,621
Outpatient	<u>36,124,068</u>	<u>42,007,259</u>
Gross Patient Service Revenue	47,456,153	55,925,606
Charity	(2,967,555)	(4,049,474)
Third-Party Contractual Adjustments	(24,491,553)	(30,657,879)
Provision for Bad Debts	(2,143,297)	(2,902,445)
Medicaid Supplemental Payments and Other Credits	<u>1,815,186</u>	<u>2,543,466</u>
Net Patient Service Revenue	<u>\$ 19,668,934</u>	<u>\$ 20,859,274</u>

Charity Care – The value of charity care provided by the Hospital based upon its established rates was \$2,967,555 in 2017 and \$4,049,474 in 2016. 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 \$1,693,662 and \$2,394,968 for the years ended December 31, 2017 and 2016, 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, 2017 and 2016 are \$527,962 and (\$43,564), respectively.

NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS

At December 31, 2017 and 2016, the carrying amounts of the Hospital’s deposits with financial institutions were \$651,905 and \$919,171, respectively, and the bank balances were \$1,009,640 and \$800,624, 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
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)
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DECEMBER 31, 2017 AND 2016**

NOTE 4 - ACCOUNTS RECEIVABLE

Accounts receivable consist of the following at December 31:

	<u>2017</u>	<u>2016</u>
Gross Accounts Receivable	\$ 15,536,341	\$ 16,323,656
Less: Allowance for Bad Debts	(9,625,403)	(11,136,332)
Allowance for Contractuals	<u>(3,388,023)</u>	<u>(3,040,489)</u>
Accounts Receivable, Net of Allowance	<u>\$ 2,522,915</u>	<u>\$ 2,146,835</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>2017</u>	<u>2016</u>
Medicare	21%	11%
Medicaid	10%	15%
Other Third-Party Payors	18%	20%
Patients	<u>51%</u>	<u>54%</u>
Total	<u>100%</u>	<u>100%</u>

PECOS COUNTY MEMORIAL HOSPITAL
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)
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DECEMBER 31, 2017 AND 2016

NOTE 5 – CAPITAL ASSETS

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

	<u>Balance</u> <u>12/31/2016</u>	<u>Additions</u>	<u>Reclass/ Retirements</u>	<u>Balance</u> <u>12/31/2017</u>
Capital Assets Not Being Depreciated:				
Land	\$ 85,649	\$ -	\$ -	\$ 85,649
Capital Assets Being Depreciated:				
Land Improvements	735,721	-	-	735,721
Building and Improvements	24,723,520	37,129	-	24,760,649
Equipment	12,957,847	234,959	483,000	13,675,806
Capital Leases	958,186	9,000	(483,000)	484,186
Capitalized Interest	<u>1,746,954</u>	<u>-</u>	<u>-</u>	<u>1,746,954</u>
Total Capital Assets Being Depreciated	41,122,228	281,088	-	41,403,316
Less Accumulated Depreciation for:				
Land Improvements	(614,263)	(12,441)	-	(626,704)
Building and Improvements	(12,573,988)	(757,158)	-	(13,331,146)
Equipment	(11,672,353)	(506,795)	(454,825)	(12,633,973)
Capital Leases	(628,973)	(101,781)	454,825	(275,929)
Capitalized Interest	<u>(638,795)</u>	<u>(43,674)</u>	<u>-</u>	<u>(682,469)</u>
Total Accumulated Depreciation	<u>(26,128,372)</u>	<u>(1,421,849)</u>	<u>-</u>	<u>(27,550,221)</u>
Total Capital Assets Being Depreciated, Net	<u>14,993,856</u>	<u>(1,140,761)</u>	<u>-</u>	<u>13,853,095</u>
Total Capital Assets, Net	<u>\$ 15,079,505</u>	<u>\$ (1,140,761)</u>	<u>\$ -</u>	<u>\$ 13,938,744</u>

PECOS COUNTY MEMORIAL HOSPITAL
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016

NOTE 5 – CAPITAL ASSETS (CONTINUED)

	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>

In 2016, the issuance of bonds for the construction of a dialysis building and Hospital facility expansion 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 recognized 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, 2017 AND 2016

NOTE 6 – LONG-TERM DEBT

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

	Balance <u>12/31/2016</u>	Additions	Reductions	Balance <u>12/31/2017</u>	Due Within <u>One Year</u>
Bonds Payable:					
Series 2008	\$ 635,000	\$ -	\$ (635,000)	\$ -	\$ -
Capital Leases Payable:					
Capital Lease #3	9,346	-	(9,346)	-	-
Capital Lease #4	13,981	-	(13,981)	-	-
Capital Lease #5	17,469	-	(9,243)	8,226	8,226
Capital Lease #6	28,519	-	(18,663)	9,856	9,856
Capital Lease #7	82,165	-	(18,444)	63,721	21,620
Capital Lease #8	104,654	-	(24,168)	80,486	27,778
Capital Lease #9	63,439	-	(36,006)	27,433	27,433
Capital Lease #10	-	9,000	(1,968)	7,032	2,902
Total Capital Leases Payable	<u>319,573</u>	<u>9,000</u>	<u>(131,819)</u>	<u>196,754</u>	<u>97,815</u>
Total Long-Term Debt and Capital Leases	<u>\$ 954,573</u>	<u>\$ 9,000</u>	<u>\$ (766,819)</u>	<u>\$ 196,754</u>	<u>\$ 97,815</u>
	Balance <u>12/31/2015</u>	Additions	Reductions	Balance <u>12/31/2016</u>	Due Within <u>One Year</u>
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, 2017 AND 2016**

NOTE 6 – LONG-TERM DEBT (CONTINUED)

The terms and due dates of the Hospital's long-term debt at December 31, 2017 and 2016 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.
- 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.
- Capital lease #10 – Lease payable to Marlin Business Bank, payable in monthly installments of \$297, carrying an effective interest rate of 11.55%, with a maturity date in March 2020, collateralized by equipment.

**PECOS COUNTY MEMORIAL HOSPITAL
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 6 – LONG-TERM DEBT (CONTINUED)

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,	<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>
2018	\$ 97,815	\$ 19,540
2019	60,527	10,621
2020	38,412	1,903
Totals	<u>\$ 196,754</u>	<u>\$ 32,064</u>

The amount of interest cost incurred in 2017 and 2016 was \$7,515 and \$72,861, respectively, all of which was charged to operations.

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 \$811,220 and \$1,172,625, and received \$1,851,254 and \$2,757,978 for the years ended December 31, 2017 and 2016, respectively. The Hospital recognized revenue of \$1,040,034 and \$1,585,353 for the years ended December 31, 2017 and 2016, respectively. The net revenue is included in net patient service revenue in the accompanying statements of revenues, expenses, and changes in net position.

Uniform Hospital Rate Increase Program – The Hospital participated in the Uniform Hospital Rate Increase Program (“UHRIP”), a program designed to direct a Medicaid managed care organization (“MCO”) to provide a uniform percentage rate increase to hospitals in the MCO’s network in a participating service delivery area for the provision of inpatient services, outpatient services, or both. The State of Texas determines eligibility for rate increases by service delivery area and class of hospital. The program is planned to be implemented on March 1, 2018. This program is facilitated through the Hospital providing an intergovernmental transfer whereby federal matching funds are provided to supplement the Hospital’s shortfall in Medicaid funding. In connection with this program, the Hospital provided intergovernmental transfers of \$102,412 and \$-0- for the years ended December 31, 2017 and 2016. Additionally, the \$102,412 funded in 2017 has been recorded as a prepaid expense and is included in prepaid and other current assets in the accompanying statements of net position.

**PECOS COUNTY MEMORIAL HOSPITAL
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 7 – SECTION 1115 DEMONSTRATION WAIVER PROGRAM (CONTINUED)

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 \$1,538,826 and received \$2,553,535 for the year ended December 31, 2017, and provided intergovernmental transfers of \$949,104 and received \$2,206,041 for the year ended December 31, 2016. Additionally, the Hospital recorded a net receivable in the amount of \$1,656,704 and \$1,068,346 for the years ended December 31, 2017 and 2016, respectively. The receivables are included in other receivables in the accompanying statements of net position. The Hospital recognized net revenue of \$1,603,067 and \$1,434,193 for the years ended December 31, 2017 and 2016, 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 \$836,442 and \$852,512 as of December 31, 2017 and 2016, respectively. As part of the affiliation agreement, Pecos County provided, on behalf of the Hospital, \$200,000 and \$850,000 in funding to the program for the years ended December 31, 2017 and 2016, 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.

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.

**PECOS COUNTY MEMORIAL HOSPITAL
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NOTE 9 - MEDICAID DISPROPORTIONATE SHARE FUNDS (CONTINUED)

In connection with this program, the Hospital provided intergovernmental transfers of \$582,877 and \$691,115 and received \$1,336,779 and \$1,647,903 for the years ended December 31, 2017 and 2016, respectively. The Hospital recognized revenue of \$753,902 and \$956,788 for the years ended December 31, 2017 and 2016, respectively. The respective net revenue is included in net patient service revenue in the accompanying statements of revenues, expenses, and changes in net position.

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 \$81,032 and \$100,815 during December 31, 2017 and 2016, respectively.

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. 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.

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.

**PECOS COUNTY MEMORIAL HOSPITAL
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 11 – PENSION PLAN

Benefits Provided (Continued)

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.

Employee Covered by Benefit Terms – At December 31, 2016 and 2015, the following employees were covered by the benefit terms:

	<u>2016</u>	<u>2015</u>
Inactive Employees or Beneficiaries Currently Receiving Benefits	71	75
Inactive Employees Entitled to but not Yet Receiving Benefits	87	91
Active Employees	<u>210</u>	<u>217</u>
Total	<u><u>368</u></u>	<u><u>383</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 7.0% 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, 2016 and 2015, employees contributed approximately \$797,000 and \$824,000, or 7.0% and 7.0%, of covered payroll, respectively, and the Hospital contributed approximately \$1,054,000 and \$1,106,000, or 9.3% and 9.4% of covered payroll, respectively, to the Plan.

**PECOS COUNTY MEMORIAL HOSPITAL
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 11 – PENSION PLAN (CONTINUED)

Net Pension Liability

At December 31, 2017 and 2016, the Hospital’s net pension liability was measured as of December 31, 2016 and 2015, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The total pension liability in the December 31, 2016 and 2015 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial Cost Method	Entry Age
Amortization Method	Level percentage of payroll, closed
Asset Valuation Method	
Smoothing period	5 years
Recognition period	Non-asymptotic
Inflation	3.0%
Salary Increases	Varies by age and service. 4.9% average over career including inflation
Investment Rate of Return	8.10%

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.

**PECOS COUNTY MEMORIAL HOSPITAL
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 11 – PENSION PLAN (CONTINUED)

Net Pension Liability (Continued)

Updated mortality assumptions were adopted in 2016 and 2015. All other actuarial assumptions that determined the total pension liability as of December 31, 2016 and 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 of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

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

Asset Class	Target Allocation	Geometric Real Rate of Return (Expected minus Inflation)
U.S Equities	13.50%	4.70%
Private Equity	16.00%	7.70%
Global Equities	1.50%	5.00%
International Equities-Developed	10.00%	4.70%
International Equities-Emerging	7.00%	5.70%
Investment-Grade Bonds	3.00%	0.60%
High-Yield Bonds	3.00%	3.70%
Opportunistic Credit	2.00%	3.83%
Direct Lending	10.00%	8.15%
Distressed Debt	3.00%	6.70%
REIT Equities	2.00%	3.85%
Master Limited Partnerships (MLP's)	3.00%	5.60%
Private Real Estate Partnerships	6.00%	7.20%
Hedge Funds	20.00%	3.85%
	100.00%	

**PECOS COUNTY MEMORIAL HOSPITAL
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 11 – PENSION PLAN (CONTINUED)

Discount Rate

The discount rate used to measure the total pension liability was 8.10% at December 31, 2016 and 2015. 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.

The following table summarizes the changes in the net pension liability as of December 31, 2016, the valuation date:

	2016		
	Increase (Decrease)		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability
Balances as of December 31, 2015	\$41,377,022	\$ 36,764,234	\$ 4,612,788
Changes for the Year:			
Service Cost	1,550,691	-	1,550,691
Interest on Total Pension Liability	3,170,014	-	3,170,014
Effect of Plan Changes	-	-	-
Effect of Economic/Demographic Gains or Losses	(333,811)	-	(333,811)
Effect of Assumptions Changes or Inputs	-	-	-
Refund of Contributions	(183,521)	(183,521)	-
Benefit Payments	(1,674,709)	(1,674,709)	-
Administrative Expenses	-	(27,978)	27,978
Member Contributions	-	797,175	(797,175)
Net Investment Income	-	2,570,193	(2,570,193)
Employer Contributions	-	1,054,447	(1,054,447)
Other	-	9,976	(9,976)
Balances as of December 31, 2016	<u>\$43,905,686</u>	<u>\$ 39,309,817</u>	<u>\$ 4,595,869</u>

**PECOS COUNTY MEMORIAL HOSPITAL
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

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:

	2015		
	Increase (Decrease)		
Changes in Net Pension Liability	<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>

Sensitivity to the Net Pension Liability (Asset) 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 (asset) would be if it were calculated using a discount rate that is 1-percentage-point lower (7.10%) or 1-percentage-point higher (9.10%) than the current rate as of the valuation date December 31:

	2016		
	1% <u>Decrease</u> 7.10%	Current <u>Discount Rate</u> 8.10%	1% <u>Increase</u> 9.10%
Total Pension Liability	\$ 49,684,761	\$ 43,905,686	\$ 39,122,543
Fiduciary Net Position	<u>39,323,303</u>	<u>39,309,817</u>	<u>39,323,303</u>
Net Pension (Asset)/Liability	<u>\$ 10,361,458</u>	<u>\$ 4,595,869</u>	<u>\$ (200,760)</u>

**PECOS COUNTY MEMORIAL HOSPITAL
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 11 – PENSION PLAN (CONTINUED)

Discount Rate (Continued)

	2015		
	1% Decrease	Current Discount Rate	1% Increase
	<u>7.10%</u>	<u>8.10%</u>	<u>9.10%</u>
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>

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, 2017 and 2016, the Hospital recognized pension expense of \$634,910 and \$236,444, respectively. At December 31, 2017 and 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:

	2017	
	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 572,813	\$ 6,497
Changes in Assumptions or Inputs	-	236,633
Net Difference Between Projected and Actual Earnings	-	2,090,611
Contributions Made Subsequent to Measurement Date	N/A	1,063,560
	2016	
	<u>Deferred Inflows of Resources</u>	<u>Deferred Outflows of Resources</u>
Difference Between Expected and Actual Experience	\$ 483,682	\$ 12,993
Changes in Assumptions or Inputs	-	354,950
Net Difference Between Projected and Actual Earnings	-	2,557,887
Contributions Made Subsequent to Measurement Date	N/A	1,034,169

**PECOS COUNTY MEMORIAL HOSPITAL
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

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:	
2017	592,487
2018	585,992
2019	533,434
2020	49,015

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 2017 and 2016, the Hospital contributed approximately \$427,000 and \$399,000, respectively, to the Plan. For fiscal years 2017 and 2016, 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:

**PECOS COUNTY MEMORIAL HOSPITAL
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

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

Annual OPEB Cost and Net OPEB Obligation (Continued)

	<u>2017</u>	<u>2016</u>
Annual Required Contribution	\$ 4,413,025	\$ 4,088,327
Interest on Net OPEB Obligation	<u>780,854</u>	<u>644,034</u>
Annual OPEB Cost (Expense)	5,193,879	4,732,361
Contributions Made	<u>(1,538,998)</u>	<u>(1,312,089)</u>
Increase in Net OPEB Obligation	3,654,881	3,420,272
Net OPEB Obligation, Beginning of Year	<u>19,521,344</u>	<u>16,101,072</u>
Net OPEB Obligation, End of Year	<u><u>\$23,176,225</u></u>	<u><u>\$19,521,344</u></u>

The Hospital's annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan and the net OPEB obligation for 2017 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>
2017	\$ 3,654,881	10.6%	\$ 23,176,225
2016	\$ 3,420,272	10.4%	\$ 19,521,344
2015	\$ 3,437,217	11.8%	\$ 16,101,072

Funding Status and Funding Progress

As of January 1, 2017, the most recent actuarial valuation date, the Hospital Plan was not funded. The actuarial accrued liability for benefits was \$29.4 million, and since the Plan is funded on a pay-as-you-go basis, this results in an unfunded actuarial accrued liability (UAAL) of \$29.4 million for the year ended December 31, 2017. 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.

**PECOS COUNTY MEMORIAL HOSPITAL
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

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, 2017 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, 2017, was 22 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.

**PECOS COUNTY MEMORIAL HOSPITAL
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

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

Actuarial Methods and Assumptions (Continued)

	<u>Projected Benefit Payments</u>
2018	\$ 554,016
2019	601,121
2020	631,062
2021	681,918
2022	766,274
Thereafter	<u>19,941,834</u>
Total	<u>\$ 23,176,225</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.

During 2017, the Hospital discovered a provider knowingly billed false Medicare and Medicaid claims. The Hospital self-reported the finding to Medicare and Medicaid and terminated the agreement with the provider. A subsequent investigation was performed by the Office of Inspector General (“OIG”) of total falsely billed Medicare and Medicaid claims and as a result, a settlement was agreed upon between the Hospital and the OIG in the amount of \$136,437. The Hospital has recorded this settlement amount as of December 31, 2017 and is included in other accrued liabilities in the accompanying statements of net position.

Leases – The Hospital leases various equipment and facilities under operating leases expiring at various dates. Total rental expense, including operating leases, in 2017 and 2016 was \$128,939 and \$68,008, 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.

**PECOS COUNTY MEMORIAL HOSPITAL
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
DECEMBER 31, 2017 AND 2016**

NOTE 15 – SUBSEQUENT EVENTS

The date to which events occurring after December 31, 2017, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosure is July 17, 2018, 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 (CONTINUED)
DECEMBER 31, 2017 AND 2016

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

	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability			
Service Cost	\$ 1,550,691	\$ 1,516,589	\$ 1,529,545
Interest on Total Pension Liability	3,170,014	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	(333,811)	(644,910)	25,986
Benefit Payments/Refunds of Contributions	(1,858,230)	(1,773,952)	(1,755,443)
Net Change in Total Pension Liability	<u>2,528,664</u>	<u>2,247,479</u>	<u>2,738,770</u>
Total Pension Liability, Beginning	<u>41,377,022</u>	<u>39,129,543</u>	<u>36,390,773</u>
Total Pension Liability, Ending	<u><u>\$ 43,905,686</u></u>	<u><u>\$ 41,377,022</u></u>	<u><u>\$ 39,129,543</u></u>
Fiduciary Net Position			
Employer Contributions	\$ 1,054,447	\$ 1,106,442	\$ 1,187,985
Member Contributions	797,175	823,946	865,836
Investment Income Net of Investment Expenses	2,570,193	(55,886)	2,318,640
Benefit Payments/Refunds of Contributions	(1,858,230)	(1,773,952)	(1,755,443)
Administrative Expenses	(27,978)	(24,500)	(27,229)
Other	9,976	53,249	(7,857)
Net Changes in Fiduciary Net Position	<u>2,545,583</u>	<u>129,299</u>	<u>2,581,932</u>
Fiduciary Net Position, Beginning	<u>36,764,234</u>	<u>36,634,935</u>	<u>34,053,003</u>
Fiduciary Net Position, Ending	<u><u>\$ 39,309,817</u></u>	<u><u>\$ 36,764,234</u></u>	<u><u>\$ 36,634,935</u></u>
Net Pension Liability, Ending	<u><u>\$ 4,595,869</u></u>	<u><u>\$ 4,612,788</u></u>	<u><u>\$ 2,494,608</u></u>
Fiduciary Net Position as a % of Total Pension Liability	89.53%	88.85%	93.62%
Pensionable Covered Payroll	\$ 11,387,115	\$ 11,770,657	\$ 12,356,371
Net Pension Liability as a % of Covered Payroll	40.36%	39.19%	20.19%

This schedule is presented to illustrate the requirements to show information for 10 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, 2017 AND 2016**

Schedule of Employer Contributions

<u>Year Ending December 31,</u>	<u>Actuarially Determined Contribution (1)</u>	<u>Actual Employer Contribution (1)</u>	<u>Contribution Deficiency (Excess)</u>	<u>Pensionable Covered Payroll (2)</u>	<u>Actual Contribution as a % of Covered Payroll</u>
2007	\$ 478,504	\$ 478,504	\$ -	\$ 6,510,259	7.3%
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	(1,774)	12,395,371	9.6%
2015	1,106,442	1,106,442	-	11,770,657	9.4%
2016	1,054,447	1,054,447	-	11,387,115	9.3%

(1) TCDRS calculates actuarially determined contributions on a calendar year basis. GASB Statement No. 68 indicates the employer should report employer contribution amounts on a fiscal year basis.

(2) 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, 2017 AND 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
Amortization Method	Level percentage of payroll, closed
Remaining Amortization Period	13.2 years (based on contribution rate calculated in 12/31/2016 valuation)
Asset Valuation Method	5-year smoothed market
Inflation	3.0%
Salary Increases	Varies by age and service. 4.9% average over career including inflation
Investment Rate of Return	8.00%, net of investment expenses, including inflation
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 61.
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.
Changes in Plan Provisions Reflected in the Schedule of Employer Contributions*	2015: No changes in plan provisions. 2016: No changes in plan provisions.

* Only changes effective 2015 and later are shown in the Notes to Schedule.

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, 2017 AND 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)
1/1/2013	\$ -	\$ 15,409,500	\$ 15,409,500	0.00%	N/A	N/A
1/1/2015	-	20,353,212	20,353,212	0.00%	N/A	N/A
1/1/2017	-	29,468,332	29,468,332	0.00%	N/A	N/A

See independent auditor’s report on required supplementary information.

Other Financial Information

DURBIN & CO.
Certified Public Accountants

2950 50th Street
Lubbock, Texas 79413
(806) 791-1591
Fax (806) 791-3974

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, 2017 and 2016, and our report thereon dated July 17, 2018, 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 17, 2018

**PECOS COUNTY MEMORIAL HOSPITAL
 (AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)
 REVENUE FROM ROUTINE AND ANCILLARY SERVICES
 FOR THE YEARS ENDED DECEMBER 31, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Routine Services:		
Routine Services	\$ 2,324,571	\$ 2,712,986
Nursery	<u>282,201</u>	<u>352,740</u>
Total Routine Services	2,606,772	3,065,726
Ancillary and Other Services:		
Inpatient:		
Operating Room	752,542	966,860
Delivery and Labor	109,994	129,040
Anesthesiology	617,431	912,629
Radiology and Nuclear Medicine	2,694,551	2,453,461
Laboratory	658,331	720,897
Blood	44,073	72,485
Respiratory Therapy	2,280,783	3,548,165
Physical Therapy	76,070	16,567
Medical Supplies Charged to Patients	16,732	20,919
Drugs Charged to Patients	1,079,733	1,484,524
Emergency	<u>395,073</u>	<u>527,074</u>
Total Inpatient Ancillary Services	8,725,313	10,852,621

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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Outpatient:		
Operating Room	\$ 2,117,454	\$ 2,466,108
Delivery and Labor	117,367	96,147
Anesthesiology	1,722,611	1,984,092
Radiology and Nuclear Medicine	4,207,125	4,513,468
Laboratory	2,646,325	2,991,522
Blood	96,712	111,481
Respiratory Therapy	2,434,212	2,115,134
Physical Therapy	1,147,549	1,445,430
Medical Supplies Charged to Patients	(5,818)	30,282
Drugs Charged to Patients	1,466,376	1,821,553
Family Care Center	4,341,856	5,538,403
George Rural Health Clinic	2,479,059	2,570,698
Sanderson Rural Health Clinic	307,579	290,136
Marathon Rural Health Clinic	35,011	43,071
Emergency Room	5,573,675	5,991,611
Observation	3,568,497	6,315,061
Home Health	1,306,810	1,378,084
Hospice	1,532,485	1,099,030
340B Drug Program	1,029,183	1,205,948
Total Outpatient Ancillary Services	<u>36,124,068</u>	<u>42,007,259</u>
 Gross Patient Revenue	 <u>\$47,456,153</u>	 <u>\$55,925,606</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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Gross Patient Revenue	\$ 47,456,153	\$ 55,925,606
Deductions from Revenue:		
Charity	(2,967,555)	(4,049,474)
Third-Party Contractual Adjustments	(24,491,553)	(30,657,879)
Provision for Bad Debts	(2,143,297)	(2,902,445)
Medicaid Supplemental Payments and Other Credits	<u>1,815,186</u>	<u>2,543,466</u>
Total Deductions from Revenue	<u>(27,787,219)</u>	<u>(35,066,332)</u>
Net Patient Service Revenue	<u>\$ 19,668,934</u>	<u>\$ 20,859,274</u>
Delivery System Reform Incentive Program	<u>\$ 1,603,067</u>	<u>\$ 1,434,193</u>
Other Operating Revenue:		
Office Rents	\$ 169,038	\$ 177,474
Sale of Non-Patient Meals	31,707	28,141
Medical Records	5,548	4,466
Wellness Center	99,955	75,752
Miscellaneous	<u>27,772</u>	<u>4,266</u>
Total Other Operating Revenue	<u>\$ 334,020</u>	<u>\$ 290,099</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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
Routine Services	\$ 1,588,861	\$ 1,645,413
Ancillary Services:		
Operating Room	602,049	648,505
Delivery and Labor	359,207	410,154
Anesthesiology	466,298	483,552
Radiology and Nuclear Medicine	1,023,086	952,772
Laboratory	1,224,967	1,408,296
Blood	80,929	85,052
Respiratory Therapy	570,427	548,801
Physical Therapy	385,251	350,386
Medical Supplies Charged to Patients	189,740	700,273
Drugs Charged to Patients	501,385	818,730
Family Care Center	2,966,193	3,462,859
George Rural Health Clinic	1,734,593	1,756,896
Sanderson Rural Health Clinic	297,929	289,938
Marathon Rural Health Clinic	43,321	58,209
Emergency	2,041,771	2,036,222
Home Health	885,627	801,023
Hospice	605,965	490,415
Wellness Center	<u>80,200</u>	<u>96,153</u>
Total Ancillary Services	14,058,938	15,398,236

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, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
General Services:		
Operation and Plant	\$ 1,072,575	\$ 1,486,468
Laundry and Linen	56,078	33,739
Housekeeping	427,185	414,941
Dietary	397,856	354,326
Total General Services	<u>1,953,694</u>	<u>2,289,474</u>
Administrative Services:		
Salaries and Wages	1,285,534	946,004
Other Operating	164,548	42,429
Employee Benefits	8,691,387	7,952,171
Supplies	12,139	7,519
Medical Records	424,712	672,818
Nursing Administration	3,045	722
Social Services	55,659	52,202
Other Office Expenses	22,605	32,820
Travel and Seminars	14,199	9,182
Insurance	61,993	65,427
Legal and Accounting Fees	106,857	123,731
Advertising	170	-
Purchased Services	838,789	944,865
Physician Recruitment	28,879	97,306
Repairs and Maintenance	12	-
Dues and Subscriptions	49,588	73,413
Collection Fees	45,235	253,222
Total Administrative Services	<u>11,805,351</u>	<u>11,273,831</u>
Depreciation and Amortization	<u>1,421,849</u>	<u>1,727,920</u>
Total Operating Expenses	<u><u>\$ 30,828,693</u></u>	<u><u>\$ 32,334,874</u></u>

See independent auditor's report on other financial information.