

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

**AS OF AND FOR THE YEARS ENDED**  
**DECEMBER 31, 2019 AND 2018**

## 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, 2019 and 2018, 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, 2019 and 2018, 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 39 through 44 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  
August 20, 2020

**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, 2019 AND 2018**

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
DECEMBER 31, 2019 AND 2018  
(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, 2019 and 2018. 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 \$4,301,067, or 29.1%, decrease in 2019 and a \$3,219,897, or 27.9%, decrease in 2018.
- Net patient service revenue increased \$1,765,523, or 8.1%, in 2019 and increased \$2,069,504, or 10.5%, in 2018.
- Total operating expenses increased \$2,634,023, or 8.4%, in 2019 and \$409,255, or 1.3%, in 2018.

**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, deferred outflows of resources, liabilities, and deferred inflows of resources—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 assess 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, 2019 AND 2018  
(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 \$4,301,067, or 29.1%, in 2019 and \$3,219,897, or 27.9%, in 2018, as you can see below.

**Table 1: Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources, and Net Position**

	2019	2018	2017 (Restated)
Assets and Deferred Outflows of Resources:			
Current Assets	\$ 5,121,884	\$ 5,158,771	\$ 7,154,251
Capital Assets, Net	<u>13,691,817</u>	<u>14,258,349</u>	<u>13,938,744</u>
Total Assets	18,813,701	19,417,120	21,092,995
Deferred Outflows of Resources	<u>3,912,878</u>	<u>1,607,053</u>	<u>3,436,067</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 22,726,579</u>	<u>\$ 21,024,173</u>	<u>\$ 24,529,062</u>
Liabilities and Deferred Inflows of Resources:			
Long-Term Debt Outstanding	\$ 1,379,368	\$ 1,147,643	\$ 196,754
Other Current and Non-Current	40,252,268	33,743,382	35,311,108
Deferred Inflows of Resources	<u>169,282</u>	<u>906,420</u>	<u>574,575</u>
Total Liabilities and Deferred Inflows of Resources	41,800,918	35,797,445	36,082,437
Net Position:			
Net Investment in Capital Assets	12,312,449	13,110,706	13,741,990
Unrestricted	<u>(31,386,788)</u>	<u>(27,883,978)</u>	<u>(25,295,365)</u>
Total Net Position	<u>(19,074,339)</u>	<u>(14,773,272)</u>	<u>(11,553,375)</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 22,726,579</u>	<u>\$ 21,024,173</u>	<u>\$ 24,529,062</u>

Significant components of the change in the Hospital’s net position are due to increases in the Hospital’s retirement plan and other post-employment benefit (“OPEB”) plan liabilities and related deferred outflows and inflows of resources.

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2019 AND 2018  
(Unaudited)**

**THE HOSPITAL'S NET POSITION (CONTINUED)**

The Hospital's net pension liability increased approximately \$4M in 2019 and the Hospital's OPEB plan liabilities increased approximately \$2M in 2019. These increases were based on the most recent valuations of the pension and OPEB plans.

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

In 2019 and 2018, the Hospital's net position decreased \$4,301,067 and \$3,219,897, 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**

	2019	2018	2017 (Restated)
Operating Revenues:			
Net Patient Service Revenue	\$ 23,503,961	\$ 21,738,438	\$ 19,668,934
Delivery System Reform Incentive Program	896,557	425,516	1,603,067
Other Operating Revenue	377,678	571,063	334,020
Total Operating Revenue	<u>24,778,196</u>	<u>22,735,017</u>	<u>21,606,021</u>
Operating Expenses:			
Salaries, Wages, and Benefits	20,170,670	20,577,159	21,744,092
Other Operating Expenses	12,471,743	9,410,306	7,662,752
Depreciation/Amortization	1,229,558	1,250,483	1,421,849
Total Operating Expenses	<u>33,871,971</u>	<u>31,237,948</u>	<u>30,828,693</u>
Operating Loss	(9,093,775)	(8,502,931)	(9,222,672)
Nonoperating Revenues and Expenses:			
County Subsidy	4,628,600	4,931,990	4,836,026
Noncapital Grants/Contributions	-	100,000	17,318
Community Benefit Support	-	146,889	836,442
Intergovernmental Transfer Expense	-	-	(425,000)
Other	82,790	(974)	9,247
Total Nonoperating Revenues and Expenses	<u>4,711,390</u>	<u>5,177,905</u>	<u>5,274,033</u>
Deficit of Revenues over Expenses Before Capital Grants and Contributions	(4,382,385)	(3,325,026)	(3,948,639)
Capital Grants and Contributions	<u>81,318</u>	<u>105,129</u>	<u>28,930</u>
Decrease in Net Position	(4,301,067)	(3,219,897)	(3,919,709)
Net Position, Beginning of Year as Previously Reported	(14,773,272)	(11,553,375)	(4,842,022)
Prior Period Adjustment - Adoption of Accounting Standard	<u>-</u>	<u>-</u>	<u>(2,791,644)</u>
Net Position, Beginning of Year, as Restated	<u>(14,773,272)</u>	<u>(11,553,375)</u>	<u>(7,633,666)</u>
Net Position, Beginning of Year	<u>(14,773,272)</u>	<u>(11,553,375)</u>	<u>(4,842,022)</u>
Net Position, End of Year	<u><u>\$ (19,074,339)</u></u>	<u><u>\$ (14,773,272)</u></u>	<u><u>\$ (11,553,375)</u></u>

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)  
DECEMBER 31, 2019 AND 2018  
(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 (\$9,093,775) in 2019 and (\$8,502,931) in 2018. 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 the unfavorable increase in operating loss in 2019 are:

- Other operating revenue decreased \$193,385, or 33.9%
- Employee benefits increased \$565,265, or 8.2%
- Professional fees and purchased services increased \$2,572,691, or 51.2%

The primary components of the favorable decrease in operating loss in 2018 are:

- Net patient service revenue increased \$2,069,504, or 10.5%
- Salaries, wages, and benefits expense decreased \$1,166,933, or 5.4%
- Other operating revenue increased \$237,043, or 71.0%

**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 \$-0- and \$146,889 in 2019 and 2018, respectively.

**Grants, Contributions, and Endowments**

The Hospital received \$-0- and \$100,000 in noncapital grants and contributions in 2019 and 2018, respectively, and received \$81,318 and \$105,129 in capital grants and contributions in 2019 and 2018, 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, 2019 AND 2018  
(Unaudited)**

**CAPITAL ASSETS AND DEBT ADMINISTRATION**

**Capital Assets**

At the end of 2019, the Hospital had \$13,691,817 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 of the financial statements, compared to \$14,258,349 in 2018. In 2019 and 2018, the Hospital acquired \$663,026 and \$1,570,089, respectively, in capital assets.

**Debt**

At the end of 2019, the Hospital had long-term debt outstanding of \$1,379,368, as detailed in Note 6 of the financial statements, compared to \$1,147,643 in 2018. During 2019 and 2018, the Hospital assumed \$335,138 and \$1,058,980, respectively, in capital lease obligations.

**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, 2019 AND 2018**

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

**STATEMENTS OF NET POSITION**

**DECEMBER 31, 2019 AND 2018**

<b>ASSETS AND DEFERRED OUTFLOWS OF RESOURCES:</b>	<u>2019</u>	<u>2018</u>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 1,653,699	\$ 1,784,326
Patient Accounts Receivable, Net of Allowances	2,047,308	2,801,787
Estimated Third-Party Payor Settlements	465,527	-
Other Receivables	476,623	89,612
Inventory of Supplies	452,918	396,266
Prepaid and Other Current Assets	<u>25,809</u>	<u>86,780</u>
Total Current Assets	5,121,884	5,158,771
<b>CAPITAL ASSETS,</b>		
Net of Accumulated Depreciation	<u>13,691,817</u>	<u>14,258,349</u>
Total Assets	18,813,701	19,417,120
<b>DEFERRED OUTFLOWS OF RESOURCES</b>		
Difference Between Projected and Actual Earnings	2,557,668	-
Differences Between Expected and Actual Experience	-	48,278
Changes in Assumptions or Inputs	137,972	326,380
Contributions Subsequent to the Measurement Date	<u>1,217,238</u>	<u>1,232,395</u>
Total Deferred Outflows of Resources	<u>3,912,878</u>	<u>1,607,053</u>
Total Assets and Deferred Outflows of Resources	<u>\$ 22,726,579</u>	<u>\$ 21,024,173</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, 2019 AND 2018**

<b>LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND NET POSITION:</b>	<u>2019</u>	<u>2018</u>
<b>CURRENT LIABILITIES</b>		
Current Portion of Long-Term Debt	\$ 199,686	\$ 187,736
Accounts Payable	831,872	788,964
Accrued Payroll, Benefits, and Related Liabilities	1,430,225	1,781,284
Estimated Third-Party Payor Settlements	-	12,387
Other Accrued Liabilities	1,493,064	446,091
Due to Pecos County	148,608	174,386
Other Post-Employment Benefit Obligation, Current Portion	<u>577,219</u>	<u>611,000</u>
Total Current Liabilities	4,680,674	4,001,848
<b>NONCURRENT LIABILITIES</b>		
Long-Term Debt, Net of Current Portion	1,179,682	959,907
Net Pension Liability	6,826,776	2,794,791
Other Post-Employment Benefit Obligation, Net of Current Portion	<u>28,944,504</u>	<u>27,134,479</u>
Total Noncurrent Liabilities	<u>36,950,962</u>	<u>30,889,177</u>
Total Liabilities	41,631,636	34,891,025
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Difference Between Projected and Actual Earnings	-	576,819
Difference Between Expected and Actual Experience	135,381	329,601
Changes in Assumptions or Inputs	<u>33,901</u>	<u>-</u>
Total Deferred Inflows of Resources	<u>169,282</u>	<u>906,420</u>
Total Liabilities and Deferred Inflows of Resources	<u>41,800,918</u>	<u>35,797,445</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets	12,312,449	13,110,706
Unrestricted	<u>(31,386,788)</u>	<u>(27,883,978)</u>
Total Net Position	<u>(19,074,339)</u>	<u>(14,773,272)</u>
Total Liabilities, Deferred Inflows of Resources, and Net Position	<u>\$ 22,726,579</u>	<u>\$ 21,024,173</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, 2019 AND 2018**

	2019	2018
<b>OPERATING REVENUES:</b>		
Net Patient Service Revenue	\$ 23,503,961	\$ 21,738,438
Delivery System Reform Incentive Program	896,557	425,516
Other Operating Revenue	377,678	571,063
Total Operating Revenues	24,778,196	22,735,017
<b>OPERATING EXPENSES:</b>		
Salaries and Wages	12,670,545	13,642,299
Employee Benefits	7,500,125	6,934,860
Professional Fees and Purchased Services	7,593,305	5,020,614
Supplies and Other	2,875,083	2,512,890
Other Operating	2,003,355	1,876,802
Depreciation and Amortization	1,229,558	1,250,483
Total Operating Expenses	33,871,971	31,237,948
Operating Loss	(9,093,775)	(8,502,931)
<b>NONOPERATING REVENUES (EXPENSES):</b>		
County Subsidy	4,628,600	4,931,990
Noncapital Grants and Contributions	-	100,000
Community Benefit Support	-	146,889
Investment Income	53,727	29,966
Interest Expense	(28,735)	(30,940)
Gain on Disposal of Assets	57,798	-
Total Nonoperating Revenues (Expenses)	4,711,390	5,177,905
Deficit of Revenues Over Expenses Before Capital Grants and Contributions	(4,382,385)	(3,325,026)
Capital Grants and Contributions	81,318	105,129
Decrease in Net Position	(4,301,067)	(3,219,897)
Net Position, Beginning of the Year	(14,773,272)	(11,553,375)
Net Position, End of Year	\$(19,074,339)	\$(14,773,272)

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, 2019 AND 2018**

	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts From and on Behalf of Patients	\$ 24,544,305	\$ 21,775,972
Other Receipts and Payments, Net	1,170,418	3,786,826
Payments to Suppliers and Contractors	(12,424,516)	(10,746,291)
Payments to Employees	<u>(17,782,241)</u>	<u>(18,201,032)</u>
Net Cash Used by Operating Activities	(4,492,034)	(3,384,525)
 <b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Investment Earnings	53,727	29,966
 <b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:</b>		
Capital Grants and Contributions	81,318	105,129
County Subsidy for Capital Activities	313,905	429,496
Principal Payments on Long-Term Debt	(103,413)	(108,091)
Interest Payments on Long-Term Debt	(28,735)	(30,940)
Proceeds From Sale of Capital Assets	57,798	-
Purchase of Capital Assets	<u>(327,888)</u>	<u>(511,108)</u>
Net Cash Used by Capital and Related Financing Activities	(7,015)	(115,514)
 <b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES:</b>		
County Subsidy for Operations	4,314,695	4,502,494
Noncapital Grants and Contributions	<u>-</u>	<u>100,000</u>
Net Cash Provided by Noncapital Financing Activities	4,314,695	4,602,494
 Net Increase (Decrease) in Cash and Cash Equivalents	(130,627)	1,132,421
 Cash and Cash Equivalents, Beginning of Year	<u>1,784,326</u>	<u>651,905</u>
 Cash and Cash Equivalents, End of Year	<u><u>\$ 1,653,699</u></u>	<u><u>\$ 1,784,326</u></u>

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

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

**STATEMENTS OF CASH FLOWS (CONTINUED)**

**FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018**

	2019	2018
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating Loss	\$ (9,093,775)	\$ (8,502,931)
Adjustments to Reconcile Operating Loss to Net Cash		
Used by Operating Activities:		
Depreciation and Amortization	1,229,558	1,250,483
Provision for Bad Debt	2,261,378	6,656,281
Community Benefit Support	-	146,889
(Increase) Decrease in:		
Accounts Receivable	(1,506,899)	(6,935,153)
Estimated Third-Party Payor Settlements	(465,527)	527,962
Other Receivables	(387,011)	2,926,688
Prepaid Expenses and Other Current Assets	4,319	(47,877)
Deferred Outflows of Resources	(2,305,825)	1,829,014
Increase (Decrease) in:		
Accounts Payable	42,908	(1,434,997)
Accrued Salaries and Benefits Payable	(351,059)	101,354
Estimated Third-Party Payor Settlements	(12,387)	12,387
Other Accrued Liabilities	1,046,973	(360,384)
Due To Pecos County	(25,778)	174,386
Net Pension Liability	4,031,985	(1,801,078)
Other Post-Employment Benefit Obligation	1,776,244	1,740,606
Deferred Inflows of Resources	(737,138)	331,845
Net Cash Used by Operating Activities	<u>\$ (4,492,034)</u>	<u>\$ (3,384,525)</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES:		
Acquisition of Capital Assets Under Capital Lease Obligations	<u>\$ 335,138</u>	<u>\$ 1,058,980</u>

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

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
NOTES TO THE FINANCIAL STATEMENTS  
DECEMBER 31, 2019 AND 2018**

**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, 2019 and 2018, 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 contractual adjustments 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.



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**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 of Resources/Deferred 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.

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**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 (“OPEB”) Obligation** – The OPEB net liability is measured as the portion of the present value of expected future benefits, based on certain actuarial assumptions, to be provided to current active and inactive employees that is attributed to those employees’ past periods of service (total OPEB liability), less the amount of the OPEB plan’s fiduciary net position. Changes in the net OPEB liability are recognized as OPEB expense or reported as deferred outflows of resources or deferred inflows of resources depending on the nature of the change. The total OPEB liability is determined through an actuarial valuation, which is required to be performed at least every two years.

**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.

**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.

**PECOS COUNTY MEMORIAL HOSPITAL  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Charity Care (Continued)** - 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 service 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. 88** – In April 2018, GASB issued GASB Statement No. 88 – *Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements*. The objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt. The Statement is effective for reporting periods beginning after June 15, 2018. The implementation of this Statement had no effect on the change in net position in 2019 and 2018.

**Pending Adoption of Recent Accounting Pronouncements:**

**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.

**PECOS COUNTY MEMORIAL HOSPITAL  
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**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**Pending Adoption of Recent Accounting Pronouncements (Continued):**

**GASB Statement No. 89** – In June 2018, GASB issued GASB Statement No. 89 – *Accounting for Interest Cost Incurred before the End of a Construction Period*. The objective of this Statement is to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and to simplify accounting for interest cost incurred before the end of a construction period. 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.

**GASB Statement No. 91** – Governmental Accounting Standards Board Statement No. 91, *Conduit Debt Obligations*. The objectives of this Statement are to provide a single method of reporting conduit debt obligations by issuers and eliminate diversity in practice associated with (1) commitments extended by issuers, (2) arrangements associated with conduit debt obligations, and (3) related note disclosures. The requirements of this Statement are effective for periods beginning after December 15, 2020.

**GASB Statement No. 92** – In January 2020, the Governmental Accounting Standards Board (“GASB”) issued GASB Statement No. 92 – *Omnibus 2020*. The objectives of this Statement are to enhance comparability in accounting and financial reporting and to improve the consistency of authoritative literature by addressing practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics and includes specific provisions about the following:

- The effective date of GASB Statement No. 87, *Leases* to be effective for *fiscal years* beginning after December 15, 2019 and is effective for all reporting periods thereafter;
- Reporting of intra-entity transfers of assets between a primary government employer and a component unit defined benefit pension plan or defined benefit other postemployment benefit (OPEB);
- The applicability of GASB Statements No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68*, as amended, and No. 74, *Financial Reporting for Post-employment Benefit Plans Other Than Pension Plans*, as amended, to reporting assets accumulated for postemployment benefits;
- The applicability of certain requirements of GASB Statement No. 84, *Fiduciary Activities*, to postemployment benefit arrangements;
- Measurement of liabilities (and assets, if any) related to asset retirement obligations (AROs) in a government acquisition;
- Reporting by public entity risk pools for amounts that are recoverable from reinsurers or excess insurers;
- Reference to nonrecurring fair value measurements of assets and liabilities in authoritative literature;
- Terminology used to refer to derivative instruments.

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

**Pending Adoption of Recent Accounting Pronouncements (Continued):**

**GASB Statement No. 92 (Continued)** – The requirements of this Statement are effective as follows:

- The requirements related to the effective date of Statement 87, reinsurance recoveries, and terminology used to refer to derivative instruments are effective upon issuance;
- The requirements related to intra-entity transfers of assets and those related to the applicability of Statements 73 and 74 are effective for fiscal years beginning after June 15, 2020;
- The requirements related to application of Statement 84 to postemployment benefit arrangements and those related to nonrecurring fair value measurements of assets or liabilities are effective for reporting periods beginning after June 15, 2020;
- The requirements related to the measurement of liabilities (and assets, if any) associated with AROs in a government acquisition are effective for government acquisitions occurring in reporting periods beginning after June 15, 2020.

Management is currently evaluating the effect this statement will have on the financial statements and related disclosures.

**GASB Statement No. 95** - In May 2020, the Governmental Accounting Standards Board (“GASB”) issued GASB Statement No. 95 – *Postponement of the Effective Dates of Certain Authoritative Guidance*. The primary objective of this Statement is to provide temporary relief to governments and other stake holders in light of the COVID-19 pandemic. That objective is accomplished by postponing the effective dates of certain provisions in Statements and Implementation Guides that first became effective or are scheduled to become effective for periods beginning after June 15, 2018, or later.

- The effective date for GASB Statement No. 87 has been postponed from reporting periods beginning after December 15, 2019 to reporting periods beginning after June 15, 2021.
- The effective date for GASB Statement No. 89 has been postponed from reporting periods beginning after December 15, 2019 to reporting periods beginning after December 15, 2020.
- The effective date for GASB Statement No. 91 has been postponed from reporting periods beginning after December 15, 2020 to reporting periods beginning after December 15, 2021.
- The effective date for GASB Statement No. 92 has been postponed from reporting periods beginning after June 15, 2020 to reporting periods beginning after June 15, 2021.

**Reclassifications** – Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform to the presentation in the current year financial statements. These reclassifications had no effect on the change in net position.

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**NOTE 2 - NET PATIENT SERVICE REVENUE**

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

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

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

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

Net patient service revenue is comprised as follows:

	<u>2019</u>	<u>2018</u>
Routine Patient Services	\$ 2,072,594	\$ 2,337,477
Ancillary Patient Services:		
Inpatient	5,791,738	6,378,829
Outpatient	<u>43,859,303</u>	<u>41,829,004</u>
Gross Patient Service Revenue	51,723,635	50,545,310
Charity	(4,522,338)	(2,300,067)
Third-Party Contractual Adjustments	(22,467,500)	(22,777,840)
Provision for Bad Debts	(2,261,378)	(6,656,281)
Medicaid Supplemental Payments and Other Credits	<u>1,031,542</u>	<u>2,927,316</u>
Net Patient Service Revenue	<u>\$ 23,503,961</u>	<u>\$ 21,738,438</u>

**Charity Care** – The value of charity care provided by the Hospital based upon its established rates was \$4,522,338 in 2019 and \$2,300,067 in 2018. ASU 2010-23 requires charity care to be disclosed on a cost basis. The Hospital utilizes the cost to charge ratios, as calculated based on its most recent cost reports, to determine the total cost. The Hospital's cost of providing charity care was \$2,870,310 and \$1,453,548 for the years ended December 31, 2019 and 2018, respectively.

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

**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, 2019 and 2018 are \$465,527 and (\$12,387), respectively.

**NOTE 3 - DEPOSITS WITH FINANCIAL INSTITUTIONS**

At December 31, 2019 and 2018, the carrying amounts of the Hospital's deposits with financial institutions were \$1,653,699 and \$1,784,326, respectively, and the bank balances were \$1,808,624 and \$2,170,947 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.

**NOTE 4 – PATIENT ACCOUNTS RECEIVABLE**

Patient accounts receivable consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Gross Patient Accounts Receivable	\$ 17,933,327	\$ 19,967,607
Less: Allowance for Bad Debts	(12,482,181)	(13,049,290)
Allowance for Contractual Adjustments	<u>(3,403,838)</u>	<u>(4,116,530)</u>
Patient Accounts Receivable, Net of Allowances	<u>\$ 2,047,308</u>	<u>\$ 2,801,787</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>2019</u>	<u>2018</u>
Medicare	15%	16%
Medicaid	8%	11%
Other Third-Party Payors	29%	26%
Patients	<u>48%</u>	<u>47%</u>
Total	<u>100%</u>	<u>100%</u>

**PECOS COUNTY MEMORIAL HOSPITAL**  
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**NOTE 5 – CAPITAL ASSETS**

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

	<u>Balance</u> <u>12/31/2018</u>	<u>Additions</u>	<u>Reclass/ Retirements</u>	<u>Balance</u> <u>12/31/2019</u>
Capital Assets Not Being Depreciated:				
Land	\$ 85,649	\$ -	\$ -	\$ 85,649
Construction in Progress	<u>-</u>	<u>-</u>	<u>1,058,980</u>	<u>1,058,980</u>
Total Capital Assets Not Being Depreciated	85,649	-	1,058,980	1,144,629
Capital Assets Being Depreciated:				
Land Improvements	735,721	-	-	735,721
Buildings and Improvements	24,826,222	66,717	-	24,892,939
Equipment	14,359,162	261,171	(76,873)	14,543,460
Capital Leases	1,305,346	335,138	(1,058,980)	581,504
Capitalized Interest	<u>1,746,954</u>	<u>-</u>	<u>-</u>	<u>1,746,954</u>
Total Capital Assets Being Depreciated	42,973,405	663,026	(1,135,853)	42,500,578
Less Accumulated Depreciation for:				
Land Improvements	(639,145)	(12,441)	-	(651,586)
Buildings and Improvements	(14,088,750)	(760,177)	-	(14,848,927)
Equipment	(13,181,317)	(319,584)	76,873	(13,424,028)
Capital Leases	(165,350)	(93,682)	-	(259,032)
Capitalized Interest	<u>(726,143)</u>	<u>(43,674)</u>	<u>-</u>	<u>(769,817)</u>
Total Accumulated Depreciation	<u>(28,800,705)</u>	<u>(1,229,558)</u>	<u>76,873</u>	<u>(29,953,390)</u>
Total Capital Assets Being Depreciated, Net	<u>14,172,700</u>	<u>(566,532)</u>	<u>(1,058,980)</u>	<u>12,547,188</u>
Total Capital Assets, Net	<u>\$ 14,258,349</u>	<u>\$ (566,532)</u>	<u>\$ -</u>	<u>\$ 13,691,817</u>



**PECOS COUNTY MEMORIAL HOSPITAL  
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**NOTE 5 – CAPITAL ASSETS (CONTINUED)**

	Balance <u>12/31/2017</u>	Additions	Reclass/ Retirements	Balance <u>12/31/2018</u>
Capital Assets Not Being Depreciated:				
Land	\$ 85,649	\$ -	\$ -	\$ 85,649
Capital Assets Being Depreciated:				
Land Improvements	735,721	-	-	735,721
Buildings and Improvements	24,760,649	65,573	-	24,826,222
Equipment	13,675,806	445,536	237,820	14,359,162
Capital Leases	484,186	1,058,980	(237,820)	1,305,346
Capitalized Interest	<u>1,746,954</u>	<u>-</u>	<u>-</u>	<u>1,746,954</u>
Total Capital Assets Being Depreciated	41,403,316	1,570,089	-	42,973,405
Less Accumulated Depreciation for:				
Land Improvements	(626,704)	(12,441)	-	(639,145)
Buildings and Improvements	(13,331,146)	(757,604)	-	(14,088,750)
Equipment	(12,633,973)	(387,492)	(159,852)	(13,181,317)
Capital Leases	(275,929)	(49,273)	159,852	(165,350)
Capitalized Interest	<u>(682,469)</u>	<u>(43,674)</u>	<u>-</u>	<u>(726,143)</u>
Total Accumulated Depreciation	<u>(27,550,221)</u>	<u>(1,250,484)</u>	<u>-</u>	<u>(28,800,705)</u>
Total Capital Assets Being Depreciated, Net	<u>13,853,095</u>	<u>319,605</u>	<u>-</u>	<u>14,172,700</u>
Total Capital Assets, Net	<u>\$ 13,938,744</u>	<u>\$ 319,605</u>	<u>\$ -</u>	<u>\$ 14,258,349</u>

Construction in progress at December 31, 2019 included amounts related to the acquisition of a CT and MRI machine. The CT machine was put into service in February 2020 at a cost of approximately \$319,000 and the MRI machine is expected to be placed in service in August 2020 at an estimated cost of \$740,000.

**PECOS COUNTY MEMORIAL HOSPITAL  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

**NOTE 6 – LONG-TERM DEBT**

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

	Balance			Balance	
	12/31/2018	Additions	Reductions	12/31/2019	Due Within One Year
Capital Leases Payable:					
Capital Lease #3	\$ 42,101	\$ -	\$ (25,012)	\$ 17,089	\$ 16,756
Capital Lease #4	52,708	-	(31,558)	21,150	21,175
Capital Lease #6	4,130	-	(3,650)	480	480
Capital Lease #7	315,549	-	-	315,549	38,683
Capital Lease #8	733,155	-	-	733,155	73,772
Capital Lease #9	-	228,950	(23,652)	205,298	14,104
Capital Lease #10	-	106,188	(19,541)	86,647	34,716
Total Capital Leases Payable	<u>\$ 1,147,643</u>	<u>\$ 335,138</u>	<u>\$ (103,413)</u>	<u>\$ 1,379,368</u>	<u>\$ 199,686</u>
Total Long-Term Debt and Capital Leases	<u>\$ 1,147,643</u>	<u>\$ 335,138</u>	<u>\$ (103,413)</u>	<u>\$ 1,379,368</u>	<u>\$ 199,686</u>
	Balance			Balance	
	12/31/2017	Additions	Reductions	12/31/2018	Due Within One Year
Capital Leases Payable:					
Capital Lease #1	\$ 8,226	\$ -	\$ (8,226)	\$ -	\$ -
Capital Lease #2	9,856	-	(9,856)	-	-
Capital Lease #3	63,721	-	(21,620)	42,101	25,345
Capital Lease #4	80,486	-	(27,778)	52,708	31,926
Capital Lease #5	27,433	-	(27,433)	-	-
Capital Lease #6	7,032	-	(2,902)	4,130	3,256
Capital Lease #7	-	318,679	(3,130)	315,549	38,683
Capital Lease #8	-	740,301	(7,146)	733,155	88,526
Total Capital Leases Payable	<u>196,754</u>	<u>1,058,980</u>	<u>(108,091)</u>	<u>1,147,643</u>	<u>187,736</u>
Total Long-Term Debt and Capital Leases	<u>\$ 196,754</u>	<u>\$ 1,058,980</u>	<u>\$ (108,091)</u>	<u>\$ 1,147,643</u>	<u>\$ 187,736</u>

**PECOS COUNTY MEMORIAL HOSPITAL  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

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

The terms and due dates of the Hospital's long-term debt at December 31, 2019 and 2018 is as follows:

- Capital lease #1 – 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, paid in full October 2018.
- Capital lease #2 – 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, paid in full June 2018.
- Capital lease #3 – 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 #4 – 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 #5 – 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, paid in full September 2018.
- Capital lease #6 – 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.
- Capital lease #7 – Lease payable to Siemens Financial, payable in monthly installments of \$4,564, carrying an effective interest rate of 5.40%, with a maturity date in October 2025, collateralized by equipment.
- Capital lease #8 – Lease payable to Siemens Financial, payable in monthly installments of \$10,771, carrying an effective interest rate of 5.88%, with a maturity date in October 2025, collateralized by equipment.
- Capital lease #9 – Lease payable to Financial American Commercial, payable in monthly installments of \$4,361, carrying an effective interest rate of 5.38%, with a maturity date in May 2024, collateralized by equipment.
- Capital lease #10 – Lease payable to Dell Financial Services, payable in monthly installments of \$3,159, carrying an effective interest rate of 4.5%, with a maturity date in June 2022, collateralized by equipment.

**PECOS COUNTY MEMORIAL HOSPITAL  
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**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,	Capital Lease Obligations	
	Principal	Interest
2020	\$ 199,686	\$ 71,927
2021	215,654	58,606
2022	205,351	46,976
2023	200,726	35,626
2024	181,417	24,408
Thereafter	376,534	19,443
Totals	<u>\$ 1,379,368</u>	<u>\$ 256,986</u>

The amount of interest cost incurred in 2019 and 2018 was \$28,735 and \$30,940, 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 \$1,039,184 and \$1,878,051 and received \$2,485,491 and \$4,355,406 for the years ended December 31, 2019 and 2018, respectively. The Hospital recognized revenue of \$446,307 and \$2,477,355 for the years ended December 31, 2019 and 2018, respectively. At December 31, 2019 and 2018, the Hospital recorded an uncompensated care (“UC”) and disproportionate share recoupment liability of \$1,000,000 and \$-0-, respectively. The recoupment liability is included in UC revenue. The net revenue is included in net patient service revenue in the accompanying statements of revenues, expenses, and changes in net position.

**Delivery System Reform Incentive Program** – As part of the Section 1115 Demonstration Waiver Program, the Hospital is eligible to receive incentive payments through the Delivery System Reform Incentive Program (“DSRIP”). This incentive program is designed to improve the experience of care, improve the health of populations, and containing costs. By participating in the DSRIP program, the Hospital provides an intergovernmental transfer to finance the non-federal share of the incentive payments. In connection with this program, the Hospital provided intergovernmental transfers of \$652,202 and received \$1,548,759 for the year ended December 31, 2019, and provided intergovernmental transfers of \$1,586,771 and received \$3,668,991 for the year ended December 31, 2018. The Hospital recognized net revenue of \$896,557 and \$425,516 for the years ended December 31, 2019 and 2018, respectively.

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**NOTE 7 – SECTION 1115 DEMONSTRATION WAIVER PROGRAM (CONTINUED)**

**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 (“IGT”) 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 \$233,205 and \$131,966 for the years ended December 31, 2019 and 2018, respectively. During December 31, 2019 and 2018, the Hospital recognized \$94,832 and \$43,611, respectively, in UHRIP IGT expense. The UHRIP IGT expense at December 31, 2019 and 2018 is net of \$34,536 and \$-0-, respectively, in refunded IGT payments. The UHRIP IGT expense is included in net patient service in the accompanying statements of revenues, expenses, and changes in net position. Additionally, the Hospital recorded \$192,172 and \$88,355 in prepaid UHRIP IGT expense for the years ended December 31, 2019 and 2018, respectively. The prepaid UHRIP IGT expense is included in prepaid and other current assets in the accompanying statements of net position.

**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 \$-0- and \$146,889 as of December 31, 2019 and 2018, respectively. This agreement was terminated during 2018.

**NOTE 8 - 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.

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**NOTE 8 - MEDICAID DISPROPORTIONATE SHARE FUNDS (CONTINUED)**

In connection with this program, the Hospital provided intergovernmental transfers of \$410,952 and \$333,094 and received \$996,187 and \$783,055 for the years ended December 31, 2019 and 2018, respectively. The Hospital recognized revenue of \$585,235 and \$449,961 for the years ended December 31, 2019 and 2018, 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 9 – DEFERRED COMPENSATION PENSION PLAN**

Pecos County, Texas 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 Pecos County, Texas Commissioners. Contributions actually made by plan members aggregated \$123,444 and \$100,400 during December 31, 2019 and 2018, respectively.

**NOTE 10 – 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 Pecos County, Texas Commissioners within the options available in the state statutes governing TCDRS. The Plan does not issue a separate report that includes financial statements and required supplementary information for the Plan. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The most recent CAFR for TCDRS can be found at the following link, [www.tcdrs.org](http://www.tcdrs.org).

***Benefits Provided***

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

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**NOTE 10 – 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, 2018 and 2017, the following employees were covered by the benefit terms:

	<u>2018</u>	<u>2017</u>
Inactive Employees or Beneficiaries Currently Receiving Benefits	52	75
Inactive Employees Entitled to but not Yet Receiving Benefits	91	96
Active Employees	<u>220</u>	<u>182</u>
Total	<u><u>363</u></u>	<u><u>353</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, 2018 and 2017, employees contributed approximately \$816,000 and \$789,000, or 7.0% and 7.0%, of covered payroll, respectively, and the Hospital contributed approximately \$1,191,000 and \$1,063,000, or 10.2% and 9.5% of covered payroll, respectively, to the Plan.

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**NOTE 10 – PENSION PLAN (CONTINUED)**

*Net Pension Liability*

At December 31, 2019 and 2018, the Hospital’s net pension liability was measured as of December 31, 2018 and 2017, 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, 2018 and 2017 actuarial valuations were determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	2.75%
Salary Increases	Varies by age and service. 4.9% average over career including inflation
Investment Rate of Return	8%, net of administrative and investment expenses, including inflation.

Mortality rates were based as follows:

Depositing Members	90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014.
Service Retirees, Beneficiaries and Non-depositing Members	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Disabled Retirees	130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

The actuarial assumption used in the December 31, 2018 and 2017 valuation were based on the results of the actuarial experience study for the period January 1, 2013 – December 31, 2016, except where required to be different by GASB 68.

The long-term expected rate of return on pension investments was determined by adding expected inflation to expected long-term real returns and reflecting expected volatility and correlation. The capital market assumptions and information shown on the following page is provided by TCDRS’ investment consultant, Cliffwater, L.L.C. The numbers shows are based on January 2019 information for a 10-year time horizon. The valuation assumption for long-term expected return is re-assessed at a minimum of every four years and is set based on a 30-year time horizon; the most recent analysis was performed in 2017.



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**NOTE 10 – PENSION PLAN (CONTINUED)**

***Net Pension Liability (Continued)***

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

Asset Class	Benchmark	Target Allocation <sup>(1)</sup>	Geometric Real Rate of Return <sup>(2)</sup>
U.S. Equities	Dow Jones U.S. Total Stock Market Index	10.50%	5.40%
Private Equity	Cambridge Associates Global Private Equity & Venture Capital Index <sup>(3)</sup>	18.00%	8.40%
Global Equities	MSCI World (net) Index	2.50%	5.70%
International Equities-Developed	MSCI World Ex USA (net) Index	10.00%	5.40%
International Equities-Emerging	MSCI Emerging Markets (net) Index	7.00%	5.90%
Investment-Grade Bonds	Bloomberg Barclays U.S. Aggregate Bond Index	3.00%	1.60%
Strategic Credit	FTSE High-Yield Cash-Pay Capped Index	12.00%	4.39%
Direct Lending	S&P/LSTA Leverged Loan Index	11.00%	7.95%
Distressed Debt	Cambridge Associates Distressed Securities Index <sup>(4)</sup>	2.00%	7.20%
REIT Equities	67% FTSE NAREIT All Equity REITs Index +33% S&P Global REIT (net) Index	2.00%	4.15%
Master Limited Partnerships (MLPs)	Alerian MLP Index	3.00%	5.35%
Private Real Estate Partnerships	Cambridge Associates Real Estate Index <sup>(5)</sup>	6.00%	6.30%
Hedge Funds	Hedge Fund Research, Inc. (HFRI) Fund of Funds Composite Index	13.00%	3.90%
		100.00%	

<sup>(1)</sup> Target asset allocation adopted at the April 2019 TCDRS Board Meeting

<sup>(2)</sup> Geometric real rates of return equal the expected return minus the assumed inflation rate of 1.70%, per Cliffwater's 2019 capital market assumptions

<sup>(3)</sup> Includes vintage years 2006-present of Quarter Pooled Horizon IRPs

<sup>(4)</sup> Includes vintage years 2005-present of Quarter Pooled Horizon IRPs

<sup>(5)</sup> Includes vintage years 2007-present of Quarter Pooled Horizon IRPs

***Discount Rate***

The discount rate used to measure the total pension liability was 8.10% at December 31, 2018 and 2017. 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.

**PECOS COUNTY MEMORIAL HOSPITAL  
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**NOTE 10 – PENSION PLAN (CONTINUED)**

***Discount Rate (Continued)***

The following table summarizes the changes in the net pension liability as of December 31, 2018, the valuation date:

	2018		
	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Fiduciary Net Position</u>	<u>Net Pension Liability</u>
Changes in Net Pension Liability			
Balances as of December 31, 2017	\$47,404,168	\$ 44,609,377	\$ 2,794,791
Changes for the Year:			
Service Cost	1,405,007	-	1,405,007
Interest on Total Pension Liability	3,623,987	-	3,623,987
Effect of Plan Changes	317,104	-	317,104
Effect of Economic/Demographic Gains or Losses	(114,826)	-	(114,826)
Effect of Assumptions Changes or Inputs	-	-	-
Refund of Contributions	(141,489)	(141,489)	-
Benefit Payments	(1,904,413)	(1,904,413)	-
Administrative Expenses	-	(32,803)	32,803
Member Contributions	-	815,511	(815,511)
Net Investment Income	-	(777,072)	777,072
Employer Contributions	-	1,190,647	(1,190,647)
Other	-	3,004	(3,004)
Balances as of December 31, 2018	<u>\$50,589,538</u>	<u>\$ 43,762,762</u>	<u>\$ 6,826,776</u>

**PECOS COUNTY MEMORIAL HOSPITAL  
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**NOTE 10 – PENSION PLAN (CONTINUED)**

***Discount Rate (Continued)***

The following table summarizes the changes in the net pension liability as of December 31, 2017, the valuation date:

	2017		
	Increase (Decrease)		
	Total Pension Liability	Fiduciary Net Position	Net Pension Liability
Balances as of December 31, 2016	\$43,905,686	\$ 39,309,817	\$ 4,595,869
Changes for the Year:			
Service Cost	1,453,552	-	1,453,552
Interest on Total Pension Liability	3,426,308	-	3,426,308
Effect of Plan Changes	299,469	-	299,469
Effect of Economic/Demographic Gains or Losses	60,348	-	60,348
Effect of Assumptions Changes or Inputs	235,011	-	235,011
Refund of Contributions	(167,166)	(167,166)	-
Benefit Payments	(1,809,040)	(1,809,040)	-
Administrative Expenses	-	(28,333)	28,333
Member Contributions	-	789,009	(789,009)
Net Investment Income	-	5,444,560	(5,444,560)
Employer Contributions	-	1,063,209	(1,063,209)
Other	-	7,321	(7,321)
Balances as of December 31, 2017	<u>\$47,404,168</u>	<u>\$ 44,609,377</u>	<u>\$ 2,794,791</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:

	2018		
	1% Decrease	Current Discount Rate	1% Increase
	<u>7.10%</u>	<u>8.10%</u>	<u>9.10%</u>
Total Pension Liability	\$ 53,736,673	\$ 50,589,538	\$ 42,323,105
Fiduciary Net Position	<u>40,840,797</u>	<u>43,762,762</u>	<u>40,840,797</u>
Net Pension (Asset)/Liability	<u>\$ 12,895,876</u>	<u>\$ 6,826,776</u>	<u>\$ 1,482,308</u>

**PECOS COUNTY MEMORIAL HOSPITAL  
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**NOTE 10 – PENSION PLAN (CONTINUED)**

*Discount Rate (Continued)*

	2017		
	1%	Current	1%
	Decrease	Discount Rate	Increase
	<u>7.10%</u>	<u>8.10%</u>	<u>9.10%</u>
Total Pension Liability	\$ 53,867,618	\$ 47,404,168	\$ 42,316,523
Fiduciary Net Position	<u>44,898,475</u>	<u>44,609,377</u>	<u>44,898,475</u>
Net Pension (Asset)/Liability	<u>\$ 8,969,143</u>	<u>\$ 2,794,791</u>	<u>\$ (2,581,952)</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 Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions***

For the years ended December 31, 2019 and 2018, the Hospital recognized pension expense of \$932,971 and \$356,921, respectively. At December 31, 2019 and 2018, the Hospital reported deferred outflows of resources and deferred inflows of resources related to the TCDRS defined benefit pension plan from the following sources:

	2019	
	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	\$ 132,347	\$ -
Changes in Assumptions or Inputs	-	137,972
Net Difference Between Projected and Actual Earnings	-	2,557,668
Contributions Made Subsequent to Measurement Date	N/A	1,202,210
	2018	
	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	\$ 328,133	\$ 48,278
Changes in Assumptions or Inputs	-	306,327
Net Difference Between Projected and Actual Earnings	576,819	-
Contributions Made Subsequent to Measurement Date	N/A	1,216,836

**PECOS COUNTY MEMORIAL HOSPITAL  
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**NOTE 10 – PENSION PLAN (CONTINUED)**

*Pension 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:	
2019	916,944
2020	432,057
2021	384,096
2022	830,197
2023	-

**NOTE 11 – POST-EMPLOYMENT HEALTH CARE PLAN**

*Plan Descriptions*

The County offers post-employment medical, dental, and life insurance benefits to eligible 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.

The Hospital participates in the retiree Group Term Life (GTL) program for the Texas County & District Retirement System (TCDRS), which is a statewide program, multiple-employer, public employee retirement system. Benefits terms are established under the TCDRS Act. Participation in the retiree GTL program is optional and the employer may elect to opt out of (or opt into) coverage as of January 1 each year. The Hospital’s contribution rate for the retiree GTL program is calculated annually on an actuarial basis, and is equal to the cost of providing a one-year death benefit equal to \$5,000.

**MEDICAL BENEFIT PLAN –**

*Benefits Provided*

The Hospital provides healthcare benefits for retirees and their dependents. The benefit terms provide for payment of health insurance premiums for all eligible retirees and dependents.

**PECOS COUNTY MEMORIAL HOSPITAL  
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**NOTE 11 – POST-EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**MEDICAL BENEFIT PLAN (CONTINUED) –**

***Benefits Provided (Continued)***

Benefits are provided through a self-funded medical plan. A Medicare supplement plan with drug coverage is available once the retiree or spouse reaches age 65. Upon retirement, the retiree pays \$25 per month for individual coverage and an additional \$50 per month if spouse coverage is elected.

***Employees Covered by Benefit Terms***

At December 31, 2019 and 2018, the following employees were covered by the benefit terms:

	<u>2018</u>	<u>2017</u>
Inactive Employees or Beneficiaries Currently Receiving Benefits	116	116
Inactive Employees Entitled to but not Yet Receiving Benefits	25	25
Active Employees	<u>85</u>	<u>85</u>
Total	<u><u>226</u></u>	<u><u>226</u></u>

**Total OPEB Liability**

The Hospital’s total OPEB liability of \$29,012,355 was measured as of December 31, 2019, and was determined by an actuarial valuation as of December 31, 2018.

***Actuarial Assumptions and Other Inputs***

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using the following actuarial assumptions and other inputs, applied to all periods included in the measurement, unless otherwise specified:

Inflation	3.00%
Salary Increases	3.50%
Discount Rate	4.10%, including inflation
Healthcare Cost Trend Rates	5.00%, level
Retirees' Share of Benefit-related Costs	Retiree pays \$25 per month contribution rate for individual coverage and \$50 per month for elected spouse coverage.

The discount rate was based on the Bond Buyer GO Bond 20 Index.

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**NOTE 11 – POST-EMPLOYMENT HEALTH CARE PLANS (CONTINUED)**

**MEDICAL BENEFIT PLAN (CONTINUED) –**

**Total OPEB Liability (Continued)**

Mortality rates were based on the RPH-2014 Total Table with Projection MP-2018.

The actuarial assumptions used in the December 31, 2018 valuation were based on the results of an actuarial experience study for the period January 1, 2018 – December 31, 2018.

***Changes in the Total OPEB Liability***

The following table summarizes the changes in the net OPEB liability as of December 31, 2019:

	<u>Total OPEB Liability</u>
Balance at December 31, 2018	\$ 27,194,830
Changes for the year:	
Service Cost	1,240,720
Interest	1,154,024
Benefit Payments	<u>(577,219)</u>
Net Changes	<u>1,817,525</u>
Balance at December 31, 2019	<u>\$ 29,012,355</u>

The following table summarizes the changes in the net OPEB liability as of December 31, 2018, the valuation date:

	<u>Total OPEB Liability</u>
Balance at December 31, 2017	\$ 25,497,754
Changes for the year:	
Service Cost	1,191,854
Interest	1,082,441
Benefit Payments	<u>(577,219)</u>
Net Changes	<u>1,697,076</u>
Balance at December 31, 2018	<u>\$ 27,194,830</u>

**PECOS COUNTY MEMORIAL HOSPITAL  
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**NOTE 11 – POST-EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**MEDICAL BENEFIT PLAN (CONTINUED) –**

***Sensitivity of the Total OPEB Liability to Changes in the Discount Rate***

The following presents the total OPEB liability of the Hospital, as well as what the Hospital’s total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.10%) or 1-percentage-point higher (5.10%) than the current discount rate as of the valuation date December 31:

	<u>2019</u>		
	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	<u>3.10%</u>	<u>4.10%</u>	<u>5.10%</u>
Total OPEB Liability	<u>\$ 34,723,267</u>	<u>\$ 29,012,355</u>	<u>\$ 24,939,842</u>

The following presents the total OPEB liability of the Hospital, as well as what the Hospital’s total OPEB liability would be if it were calculated using a discount rate that is 1-percentage-point lower (3.10%) or 1-percentage-point higher (5.10%) than the current discount rate as of the valuation date December 31:

	<u>2018</u>		
	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	<u>3.10%</u>	<u>4.10%</u>	<u>5.10%</u>
Total OPEB Liability	<u>\$ 32,547,973</u>	<u>\$ 27,194,830</u>	<u>\$ 23,377,446</u>

***Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate***

The following presents the total OPEB liability of the Hospital, as well as what the Hospital’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (4.00%) of 1-percentage point higher (6.00%) than the current health cost trend rate as of the valuation date December 31:

	<u>2019</u>		
	<u>1% Decrease</u>	<u>Healthcare Cost Trend Rates</u>	<u>1% Increase</u>
	<u>4.00%</u>	<u>5.00%</u>	<u>6.00%</u>
Total OPEB Liability	<u>\$ 24,333,478</u>	<u>\$ 29,012,355</u>	<u>\$ 35,664,723</u>



**PECOS COUNTY MEMORIAL HOSPITAL  
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NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

**NOTE 11 – POST-EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**MEDICAL BENEFIT PLAN (CONTINUED) –**

***Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rate (Continued)***

The following presents the total OPEB liability of the Hospital, as well as what the Hospital’s total OPEB liability would be if it were calculated using healthcare cost trend rates that are 1-percentage point lower (4.00%) of 1-percentage point higher (6.00%) than the current health cost trend rate as of the valuation date December 31:

	2018		
	1% Decrease	Healthcare Cost Trend Rates	1% Increase
	4.00%	5.00%	6.00%
Total OPEB Liability	\$ 22,809,069	\$ 27,194,830	\$ 33,430,450

**GROUP TERM LIFE BENEFIT PROGRAM –**

***Benefits Provided***

The Group Term Life (“GTL”) program provides a fixed, lump-sum benefit of \$5,000 post-retirement death benefits to beneficiaries of service retirees and disability retirees of employers that have elected participation in the retiree GTL program. All full- and part-time non-temporary employees participate in the GTL program, regardless of the number of hours they work in a year.

***Employees Covered by Benefit Terms***

At December 31, 2018 and 2017, the following employees were covered by the benefit terms:

	2018	2017
Inactive Employees or Beneficiaries Currently Receiving Benefits	20	22
Inactive Employees Entitled to but not Yet Receiving Benefits	2	0
Active Employees	212	214
Total	234	236

***Contributions***

Contributions made to the retiree GTL program are held in the GTL fund. The Hospital’s benefit payments for the year are treated as being equal to its annual retiree GTL program contributions.

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

**NOTE 11 – POST-EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**GROUP TERM LIFE BENEFIT PROGRAM (CONTINUED) –**

**Net OPEB Liability**

The Hospital’s net OPEB liability was measured as of December 31, 2018 and 2017, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of those dates.

*Actuarial Assumptions*

The total OPEB liability in the December 31, 2018 actuarial valuation was determined using an investment rate of return (discount rate) of 4.10% and municipal bond rate of 4.10%. The total OPEB liability in the December 31, 2017 actuarial valuation was determined using an investment rate of return (discount rate) of 3.44% and municipal bond rate of 3.44%.

Mortality rates were based as follows:

Depositing Members	90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate scale after 2014.
Service Retirees, Beneficiaries and Non-depositing Members	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Disabled Retirees	130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.

The actuarial assumptions used in the December 31, 2018 and 2017 valuations were based on the results of an actuarial experience study for the period January 1, 2015 – December 31, 2016.

The long-term expected rate of return on OPEB plan investments was determined using a 20 Year Bond GO Index published by bondbuyer.com as of December 27, 2018.

**PECOS COUNTY MEMORIAL HOSPITAL  
 (AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2019 AND 2018**

**NOTE 11 – POST-EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**GROUP TERM LIFE BENEFIT PROGRAM (CONTINUED) –**

***Discount Rate***

The discount rates used to measure the total OPEB liability at December 31, 2018 and 2017 were 4.10% and 3.44%, respectively. The projection of cash flows used to determine the discount rates assumed the Hospital contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plan’s fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

***Changes in Total OPEB Liability***

The following table summarizes the changes in the net OPEB liability as of December 31, 2018, the valuation date:

	<u>Changes in Total OPEB Liability</u>
Balance as of December 31, 2017	\$ 550,664
Changes for the Year:	
Service Cost	16,795
Interest on Total OPEB Liability	18,759
Effect of Economic/Demographic Experience	(2,268)
Effect of Assumptions Changes or Inputs	(59,437)
Benefit Payments	(15,145)
Balance as of December 31, 2018	<u>\$ 509,368</u>

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

**NOTE 11 – POST-EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**GROUP TERM LIFE BENEFIT PROGRAM (CONTINUED) –**

***Changes in Total OPEB Liability***

The following table summarizes the changes in the net OPEB liability as of December 31, 2017, the valuation date:

	<u>Changes in Total OPEB Liability</u>
Balance as of December 31, 2016	\$ 507,133
Changes for the Year:	
Service Cost	16,400
Interest on Total Pension Liability	19,515
Effect of Economic/Demographic Experience	(1,762)
Effect of Assumptions Changes or Inputs	24,065
Benefit Payments	<u>(14,702)</u>
Balances as of December 31, 2017	<u>\$ 550,649</u>

***Sensitivity of the Net OPEB Liability to Changes in the Discount Rate***

The following presents the net OPEB liability of the Hospital, as well as what the Hospital’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (3.10%) or 1-percentage point higher (5.10%) than the current discount rate as of the valuation date December 31:

	<u>2018</u>		
	<u>1% Decrease</u>	<u>Current Discount Rate</u>	<u>1% Increase</u>
	<u>3.10%</u>	<u>4.10%</u>	<u>5.10%</u>
Total OPEB Liability	<u>\$ 589,051</u>	<u>\$ 509,368</u>	<u>\$ 421,688</u>

The following presents the net OPEB liability of the Hospital, as well as what the Hospital’s net OPEB liability would be if it were calculated using a discount rate that is 1-percentage point lower (2.44%) or 1-percentage point higher (4.44%) than the current discount rate as of the valuation date December 31:

**PECOS COUNTY MEMORIAL HOSPITAL  
 (AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2019 AND 2018**

**NOTE 11 – POST-EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**GROUP TERM LIFE BENEFIT PROGRAM (CONTINUED) –**

*Sensitivity of the Net OPEB Liability to Changes in the Discount Rate (Continued)*

	2017		
	1%	Current	1%
	Decrease	Discount Rate	Increase
	2.44%	3.44%	4.44%
Total OPEB Liability	\$ 663,522	\$ 550,649	\$ 464,107

***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB***

For the year ended December 31, 2019, the Hospital recognized OPEB expense of \$14,770. At December 31, 2019, the Hospital reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2019	
	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	\$ 3,034	\$ -
Changes in Assumptions or Inputs	33,901	-
Contributions Made Subsequent to Measurement Date		15,028

For the year ended December 31, 2018, the Hospital recognized OPEB expense of \$43,516. At December 31, 2018, the Hospital reported deferred outflows of resources and deferred inflows of resources related to OPEB from the following sources:

	2018	
	Deferred Inflows of Resources	Deferred Outflows of Resources
Difference Between Expected and Actual Experience	\$ 1,468	\$ -
Changes in Assumptions or Inputs	-	20,053
Contributions Made Subsequent to Measurement Date	N/A	15,559

**PECOS COUNTY MEMORIAL HOSPITAL  
 (AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
 NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
 DECEMBER 31, 2019 AND 2018**

**NOTE 11 – POST-EMPLOYMENT HEALTH CARE PLAN (CONTINUED)**

**GROUP TERM LIFE BENEFIT PROGRAM (CONTINUED) –**

***OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB (Continued)***

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

Year Ended December 31:	
2019	\$ 6,663
2020	6,663
2021	6,663
2022	6,662
2023	10,284
Thereafter	-

**NOTE 12 - COMMITMENTS AND CONTINGENCIES**

**Leases** – The Hospital leases various equipment and facilities under operating leases expiring at various dates. Total rental expense, including operating leases, in 2019 and 2018 was \$97,898 and \$76,712, respectively.

**Texas Medicaid 1115 Healthcare Transformation Waiver Recoupment Liability** – During 2017, several hospitals filed a lawsuit against the federal government challenging the rule calculating disproportionate share (“DSH”) and uncompensated care (“UC”) payments. The hospitals claimed the rule’s definition of “costs incurred” was contrary to the Medicaid Act. The main issue is whether payments made by Medicare and private insurers should be subtracted from a hospital’s “costs incurred” in the calculation of the Medicaid Hospital Specific Limit (HSL). In August 2019, the D.C. Circuit reinstated the 2017 Final Rule as adopted by the Centers for Medicare and Medicaid Services. As a result, the HSL was subsequently recalculated, resulting in numerous hospitals receiving DSH and UC funds in excess of the calculated limit during demonstration years 7 and 8. Consequently, management has recorded an estimate for the anticipated recoupment of DSH and UC funds at December 31, 2019. At December 31, 2019, management recorded an estimated recoupment liability of \$1,000,000. The recoupment liability is included within other accrued liabilities in the accompanying statements of net position.

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

**NOTE 13 – 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.

**NOTE 14 – FINANCIAL OPERATIONS**

The Hospital has experienced losses since 2013. During fiscal year 2019, the Hospital reported an operating loss and a decrease in net position from fiscal year 2018. Although total operating revenues increased approximately \$2,043,000, or 9%, from fiscal year 2018, operating expenses exceeded operating revenues by approximately \$9.1 million. A significant component of the reported operating loss is the continued increase in pension and other postemployment benefit costs. Changes in the valuations of the retirement and other postemployment benefit plans resulted in a decrease in net position of approximately \$3 million. As a result, the Hospital reported a decrease in net position of approximately \$4.3 million at December 31, 2019. Total reported net position at December 31, 2019 was approximately (\$19 million), with total reported assets and deferred outflows of resources of approximately \$23 million and total reported liabilities and deferred inflows of resources of approximately \$42 million. These conditions along with the continued increases in employee benefit costs and other operating expenses in excess of operating revenues could have a significant effect on the Hospital's ability to continue meeting its current obligations as they come due.

**NOTE 15 – 340B DRUG PROGRAM**

The District participates in the 340B "Drug Discount Program" which enables qualifying healthcare providers to purchase drugs from pharmaceutical suppliers at a substantial discount. Pharmacy revenue is recognized as pharmaceuticals are dispensed. The 340B Drug Pricing Program is managed by the Health Resources and Services Administration ("HRSA") Office of Pharmacy Affairs. The Hospital earns revenue under this program by purchasing pharmaceuticals at a reduced cost to fill prescriptions to qualified patients. The Hospital has a network of participating pharmacies that dispense the pharmaceuticals to its patients under a contract arrangement with the Hospital. For the years ended December 31, 2019 and 2018, the Hospital incurred a 340B drug program net benefit of \$1,432,339 and \$1,382,416, respectively. The 340B drug program benefit consists of reimbursements from the network of pharmacies, net of the initial purchase price of the drugs and drug dispensing fees. At December 31, 2019 and 2018, the Hospital recorded a 340B drug program receivable of \$283,194 and \$-0-, respectively. The receivable is included in other receivables in the accompanying statements of net position.

**PECOS COUNTY MEMORIAL HOSPITAL  
(AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)  
DECEMBER 31, 2019 AND 2018**

**NOTE 16 – SUBSEQUENT EVENTS**

Subsequent to year-end, the U.S. Department of Health and Human Services provided approximately \$6.0M to the Hospital from funds appropriated in the Public Health and Social Services Emergency Fund for provider relief (“Relief Fund”) under Division B of Public Law 116-127. By accepting the Relief Funds, the Hospital must maintain compliance with the Secretary’s terms and conditions, including but not limited to, using the Relief Funds to prevent, prepare for, and respond to coronavirus, and shall reimburse the Hospital only for health care related expenses or lost revenues that are attributable to coronavirus. The Hospital’s commitment to full compliance with all terms and conditions is material to the Secretary’s decision to disburse these funds. Non-compliance with any terms and conditions is grounds for the Secretary to recoup some or all of the payment made from the Relief Fund.

The date to which events occurring after December 31, 2019, the date of the most recent statement of net position, have been evaluated for possible adjustment to the financial statements or disclosure is August 20, 2020, 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:**

**PENSION PLAN:**

	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Total Pension Liability					
Service Cost	\$ 1,405,007	\$ 1,453,552	\$ 1,550,691	\$ 1,516,589	\$ 1,529,545
Interest on Total Pension Liability	3,623,987	3,426,308	3,170,014	2,937,205	2,938,682
Effect of Plan Changes	317,104	299,469	-	(260,719)	-
Effect of Assumption Changes or Inputs	-	235,011	-	473,267	-
Effect of Economic/Demographic (Gains) or Losses	(114,826)	60,348	(333,811)	(644,910)	25,986
Benefit Payments/Refunds of Contributions	(2,045,902)	(1,976,207)	(1,858,230)	(1,773,952)	(1,755,443)
Net Change in Total Pension Liability	3,185,370	3,498,481	2,528,664	2,247,479	2,738,770
Total Pension Liability, Beginning	<u>47,404,167</u>	<u>43,905,686</u>	<u>41,377,022</u>	<u>39,129,543</u>	<u>36,390,773</u>
Total Pension Liability, Ending	<u>\$ 50,589,537</u>	<u>\$ 47,404,167</u>	<u>\$ 43,905,686</u>	<u>\$ 41,377,022</u>	<u>\$ 39,129,543</u>
Fiduciary Net Position					
Employer Contributions	\$ 1,190,647	\$ 1,063,209	\$ 1,054,447	\$ 1,106,442	\$ 1,187,985
Member Contributions	815,511	789,009	797,175	823,946	865,836
Investment Income Net of Investment Expenses	(777,072)	5,444,560	2,570,193	(55,886)	2,318,640
Benefit Payments/Refunds of Contributions	(2,045,902)	(1,976,207)	(1,858,230)	(1,773,952)	(1,755,443)
Administrative Expenses	(32,803)	(28,333)	(27,978)	(24,500)	(27,229)
Other	3,004	7,321	9,976	53,249	(7,857)
Net Changes in Fiduciary Net Position	(846,615)	5,299,559	2,545,583	129,299	2,581,932
Fiduciary Net Position, Beginning	<u>44,609,376</u>	<u>39,309,817</u>	<u>36,764,234</u>	<u>36,634,935</u>	<u>34,053,003</u>
Fiduciary Net Position, Ending	<u>\$ 43,762,761</u>	<u>\$ 44,609,376</u>	<u>\$ 39,309,817</u>	<u>\$ 36,764,234</u>	<u>\$ 36,634,935</u>
Net Pension Liability, Ending	<u>\$ 6,826,776</u>	<u>\$ 2,794,791</u>	<u>\$ 4,595,869</u>	<u>\$ 4,612,788</u>	<u>\$ 2,494,608</u>
Fiduciary Net Position as a % of Total Pension Liability	86.51%	94.10%	89.53%	88.85%	93.62%
Pensionable Covered Payroll	\$ 11,650,158	\$ 11,250,841	\$ 11,387,115	\$ 11,770,657	\$ 12,356,371
Net Pension Liability as a % of Covered Payroll	58.60%	24.84%	40.36%	39.19%	20.19%

This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the standards of GASB 67/68, they should not be shown here. Therefore, we have shown only years for which the new GASB statements have been implemented.

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:**

**PENSION PLAN (CONTINUED):**

**Schedule of Employer Contributions**

Year Ending December 31,	Actuarially Determined Contribution <sup>(1)</sup>	Actual Employer Contribution <sup>(1)</sup>	Contribution Deficiency (Excess)	Pensionable Covered Payroll <sup>(2)</sup>	Actual Contribution as a % of Covered Payroll
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%
2017	1,063,209	1,063,209	-	11,250,841	9.5%
2018	1,190,647	1,190,647	-	11,650,158	10.2%

*(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. If additional assistance is needed, please contact TCDRS.*

*(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, 2019**

**PENSION PLAN (CONTINUED):**

**Notes to Schedule**

**Valuation Date:**

Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which the contributions are reported.

**Methods and assumptions used to determine contribution rates:**

Actuarial cost method	Entry Age
Amortization method	Level percentage of payroll, closed
Remaining amortization period	12.2 years (based on contribution rate calculated in 12/31/2018 valuation)
Asset valuation method	5-year smoothed market
Inflation	2.75%
Salary increases	Varies by age and service. 4.9% average over career including inflation.
Investment rate of return	8.00%, net of administrative and investment expenses, including inflation.
Retirement age	Members who 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	130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Healthy Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.
Changes in Assumptions and Methods Reflected in the Schedule of Employer Contributions*	2015: New inflation, mortality and other assumptions were reflected. 2017: New mortality assumptions were reflected.
Changes in Plan Provisions Reflected in Schedule of Employer Contributions*	2015 : No changes in plan provisions are reflected in the Schedule. 2016: No changes in plan provisions are reflected in the Schedule. 2017: New Annuity Purchase Rates were reflected for benefits earned after 2017. 2018: Employer contributions reflect that a 2% flat COLA was adopted.

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:**

**POSTEMPLOYMENT HEALTHCARE PLAN – MEDICAL BENEFIT:**

**Schedule of Changes in the Hospital's  
Total OPEB Liability**

	2019	2018
Total OPEB Liability		
Service Cost	\$ 1,240,720	\$ 1,191,854
Interest Cost	1,154,024	1,082,441
Benefit Payments	(577,219)	(577,219)
Net Change in Total OPEB Liability	1,817,525	1,697,076
Total OPEB Liability, Beginning	27,194,830	25,497,754
Total OPEB Liability, Ending	\$29,012,355	\$ 27,194,830

Notes to Schedule:

*Changes of assumptions:* Changes of assumptions and other inputs reflect the effects of changes in the discount rate each period. The following are the discount rates used in each period:

2018	4.10%
2019	4.10%

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

This schedule is presented using the optional format of combining the required schedules in paragraphs 170 and 170b.

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, 2019 AND 2018**

**POSTEMPLOYMENT HEALTHCARE PLAN – GROUP TERM LIFE BENEFIT:**

**Schedule of Changes in Total OPEB Liability  
and Related Ratios <sup>(1)</sup>**

	2018	2017
Total OPEB Liability		
Service Cost	\$ 16,795	\$ 16,400
Interest on Total OPEB Liability	18,759	19,515
Effect of Assumption Changes or Inputs	(59,437)	24,065
Effect of Economic/Demographic (Gains) or Losses	(2,268)	(1,762)
Benefit Payments	(15,145)	(14,702)
Net Change in Total OPEB Liability	(41,296)	43,516
Total OPEB Liability, Beginning	550,664	507,133
Total OPEB Liability, Ending	\$ 509,368	\$ 550,649
Net Pension Liability, Ending	\$ 509,368	\$ 550,649
 Pensionable Covered Payroll	 \$ 11,968,243	 \$ 11,309,306
Net OPEB Liability as a % of Covered Payroll	4.26%	4.87%

*(1) This schedule is presented to illustrate the requirement to show information for 10 years. However, recalculations of prior years are not required, and if prior years are not reported in accordance with the standards of GASB 74/75, they should not be shown here. Therefore, we have shown only years for which the new GASB statements have been implemented.*

See independent auditor's report on other financial information.

**PECOS COUNTY MEMORIAL HOSPITAL  
 (AN ENTERPRISE FUND OF PECOS COUNTY, TEXAS)  
 REQUIRED SUPPLEMENTARY INFORMATION (CONTINUED)  
 DECEMBER 31, 2019 AND 2018**

**POSTEMPLOYMENT HEALTHCARE PLAN – GROUP TERM LIFE BENEFIT  
 (CONTINUED):**

**Notes to Schedule**

**Valuation Date:**

Actuarially determined contribution rates are calculated each December 31, two years prior to the end of the fiscal year in which the contributions are reported.

**Methods and assumptions used to determine contribution rates:**

Actuarial cost method	Entry Age Normal
Amortization method	
Recognition of economic/ demographic gains or losses	Straight-line amortization over Expected Working Life
Recognition of assumptions changes or inputs	Straight-line amortization over Expected Working Life
Investment rate of return (Discount Rate)	4.10% 20 Year Bond GO Index published by bondbuyer.com as of December 27, 2018

See independent auditor's report on other financial information.