

**MAVERICK COUNTY HOSPITAL DISTRICT**

**FINANCIAL REPORT**

**AUGUST 31, 2014**

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## INDEPENDENT AUDITOR'S REPORT

Board of Governors  
Maverick County Hospital District  
Eagle Pass, Texas

We have audited the accompanying balance sheets of Maverick County Hospital District as of August 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

### **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 opinions 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Maverick County Hospital District as of August 31, 2014 and 2013, and the respective changes in financial position and 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 and the Schedule of Funding Progress for the Texas County and District Retirement System on pages 3 through 9 and 26, respectively, 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.

*Weaver and Tidwell, L.L.P.*

WEAVER AND TIDWELL, L.L.P.

San Antonio, Texas  
December 23, 2014

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### Introduction

This management's discussion and analysis of the financial performance of Maverick County Hospital District (the District) provides an overview of the District's financial activities for the years ended August 31, 2014 and 2013. Management's discussion and analysis should be read in conjunction with the accompanying audited financial statements of the District.

### Financial Indicators

The District's total assets decreased in 2014 by approximately \$1,986,000 and decreased in 2013 by approximately \$1,980,000. The most significant change in the District's assets in 2014 was the District's cash and short and long-term investments, which decreased by approximately \$1,437,000 in 2014 and decreased in 2013 by approximately \$1,965,000. The decrease in cash and investments was mainly due to the District's expansion of current services, which are needed to keep pace with the growing economic development and increase in population. Other contributing factors to the decrease in cash and investments were the District's continued development in specialty services in the Physician Specialty Group practice of Hematology/Oncology, Cardiology, and Orthopedic Surgery. In addition, in order to meet the growing needs of the community and surrounding areas the district continues to supplement much needed program services such as the Breast and Cervical Cancer Program, Diabetes Self-Management Education Program, Medical Financial Assistance Program, Administration and maintenance and operations of the Medical Office Facility.

In addition, the gradual recovery of the US economy along with low interest rate environment of recent years continues to hinder interest earnings. The rate of return on the investments averages around 1.13%, net income from the investments does not contribute a significant amount of cash.

Additionally, another factor in the change in net assets is the decrease of the Other Receivables by approximately \$257,000. This decrease was due to a large amount of write offs for the Medical Financial Assistance Program Cost Sharing charges. As the Affordable Care Act Marketplace (the "Marketplace") was introduced in November 2013, the Medical Financial Assistance Program lost many of its clients that qualified for coverage under the new Marketplace Insurance Plans. As these clients left, they stopped paying their balances and the balances were then subsequently written off.

In addition, in 2014 there was an increase of Patient Receivables by approximately \$84,000 as compared to 2013 due to the District expansion of its services within the Physicians Specialty Group (PSG) as the District continues to offer new and expand medical specialties to Maverick County and the surrounding areas.

Another factor in the decrease of District's total assets during the current year was due to the net depreciation of capital assets, i.e. building and equipment which was approximately \$436,000 in 2014 and \$446,000 in 2013.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The District's operating expenses were approximately \$2,491,000 greater than operating revenues in 2014 and approximately \$2,500,000 greater in 2013. While the District did see an increase in operating revenue of approximately \$750,000, in accordance with the growth of the South Texas Region, there was an increase in expenses of approximately \$741,000, mostly attributable to an increase in medications, medical supplies and salaries expenses. As such, there was only a slight decrease of approximately \$9,000 in the operating loss for the current year as compared PY.

Non-operating revenues decreased in 2014 by approximately \$45,000 and decreased in 2013 by approximately \$730,000. While Property Tax collections for taxes levied in the current year did increase by \$124,000 as the economic growth and reappraisal of properties has driven property values upward, there was a large increase in the current year for the upper payment limit program payments of approximately \$129,000.

### **Using This Annual Report**

The District's financial statements consist of three statements - balance sheets, statements of revenues, expenses and changes in net assets, and statements of cash flows. These statements provide information about the activities of the District, including resources held by the District but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The District is accounted for as a business-type activity and presents its financial statements using the economic resources measurement focus and the accrual basis of accounting.

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

One of the most important questions asked about any district's finances is, "Is the District, as a whole, better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net assets report information about the District'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. Using the accrual basis of accounting means that 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 District's net assets and changes in them. The District's total net assets - the difference between assets and liabilities - is one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the District's programs, changes in legislation and regulations, measures of the quantity and quality of services provided to its clients, and local economic factors should also be considered to assess the overall financial health of the District.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from four defined types of 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 during the reporting period.

### The District's Total Assets

The District's total assets decreased in 2014 by approximately \$1,986,000 and decreased in 2013 by approximately \$1,980,000, as reported in the District's balance sheets.

<b>ASSETS</b>	<u>2014</u>	<u>2013</u>	<u>2012</u>
Cash	\$ 3,370,617	\$ 1,227,786	\$ 3,217,084
Short-term investments	5,945,431	3,177,012	5,323,700
Patients receivable, net	810,580	726,178	713,880
Property taxes receivable, net	277,464	264,168	278,501
Other receivable, net	490,598	747,447	401,201
Prepaid expenses and other assets	123,449	188,501	121,539
Noncurrent cash and investments	9,401,196	15,748,982	13,578,292
Capital assets, net	<u>5,372,024</u>	<u>5,697,548</u>	<u>6,123,514</u>
Total assets	<u>\$ 25,791,359</u>	<u>\$ 27,777,622</u>	<u>\$ 29,757,711</u>

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### LIABILITIES AND NET POSITION

	<u>2014</u>	<u>2013</u>	<u>2012</u>
<b>LIABILITIES</b>			
Current liabilities	\$ 428,513	\$ 449,994	\$ 499,399
Estimated payable for self-insured amounts	2,000	100,000	200,000
Total liabilities	430,513	549,994	699,399
<b>NET POSITION</b>			
Net investment in capital assets	5,372,024	5,697,548	6,123,514
Unrestricted	19,988,822	21,530,080	22,934,798
Total net position	25,360,846	27,227,628	29,058,312
Total liabilities and net position	<u>\$ 25,791,359</u>	<u>\$ 27,777,622</u>	<u>\$ 29,757,711</u>

### Operating Results From the District's Operations

The District reported operating expenses that were approximately \$2,491,000 and \$2,500,000 greater than operating revenues in 2014 and 2013, respectively. Operating revenues exclude property tax revenue, investment income and upper payment limit program payments. When taking this income into consideration, the District reported a decrease in net assets of approximately \$1,867,000 and \$1,831,000 in 2014 and 2013, respectively.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

	2014	2013	2012
Operating Revenues			
Program service revenue, net	\$ 3,310,544	\$ 2,608,743	\$ 2,401,458
Other	540,796	492,529	496,607
Total operating revenues	3,851,340	3,101,272	2,898,065
Operating Expenses			
Salaries, wages and employee benefits	3,085,143	2,790,990	2,280,476
Purchased services and professional fees	933,323	920,026	867,337
Supplies and other	1,830,037	1,398,737	1,256,007
Professional liability insurance expense	57,374	45,512	44,800
Depreciation	436,236	446,215	597,237
Total operating expenses	6,342,113	5,601,480	5,045,857
Operating Loss	(2,490,773)	(2,500,208)	(2,147,792)
Nonoperating Revenues (Expenses)			
Property taxes	1,627,713	1,503,577	1,423,561
Upper payment limit program payments	(1,717,133)	(1,588,085)	(482,309)
Investment income	193,295	216,343	301,221
Noncapital grants	520,116	537,689	156,688
Total nonoperating revenue (expenses)	623,991	669,524	1,399,161
Decrease in Net Assets	\$ (1,866,782)	\$ (1,830,684)	\$ (748,631)

### Operating Losses

The first component of the overall change in the District's net assets is its operating income or loss, the difference between program service and other operating revenues and the expenses incurred to perform those services. In each of the past three years, the District has reported an operating loss. This is consistent with the District's recent operating history, as the District was created and is operated primarily to serve the indigent residents of Maverick County. The District levies property taxes to provide sufficient resources to enable the facility to serve the indigent population of Maverick County. The operating loss for 2014 is approximately \$2,491,000. An operating loss is not unexpected because nearly half of the District's revenues are derived from property taxes, which are classified as "non-

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

operating" revenues. However, all expenses are recorded as "operating" expenses. Management does not expect to show operating income in the future based on this classification requirement.

The operations of the District in 2014 continue to experience growth as in 2013; the District continued with its goal of improving the range of health care services available to the citizens of Maverick County and also through hiring additional specialty physicians. The District, through the Medical Financial Assistance Program, also assists qualified county residents to obtain a variety of health care services. The program also charges certain citizens a cost sharing based on a sliding scale up 200% of the federal poverty level. The gross revenue from those cost sharing payments is also reported as a component of program service revenue and was approximately \$362,000 and \$475,000 in 2014 and 2013, respectively. The drop in the revenue provided by the Medical Financial Assistance Program decreased in the current year due to the Marketplace being enforced in November of 2013. Many of the clients in the Medical Financial Assistance Program qualified for the Marketplace and subsequently left the program. There was also an increase in the write offs attributable to the Medical Financial Assistance Program clients of approximately \$130,000 as a result of these individuals no longer on the program.

### **The District's Non-operating Revenues and Expenses**

The District's non-operating revenues and expenses consist of property taxes levied by the District, investment income and upper payment limit program payments. Property tax revenue increased in the current year as property values increased while the hospital district's tax rate in 2014 remained the same as prior year. Investments consist of certificates of deposit, money market accounts and U.S. agency obligations. Investment return remained consistent with prior year. The increase in upper payment limit program payments relates to a Board of Director's approved motion to participate in the section 1115 Medicaid Program to continue to make payments to the demonstration programs in order to maximize federal matching for uncompensated care through that program.

### **The District's Cash Flows**

Changes in the District's cash flows are consistent with changes in operating losses and non-operating revenues, as discussed earlier.

### **Capital Assets**

The District had approximately \$5,372,000 at the end of 2014 and approximately \$5,698,000 at the end of 2013 invested in capital assets, net of accumulated depreciation, as detailed in Note 3 to the financial statements. The District's current year capital asset purchases totaled approximately \$111,000. This included the medical furniture, software and equipment necessary for the expansion of services within PSG during 2014.

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### The District's Debt

At August 31, 2014, the District's has no debt or other outstanding obligations and its economic outlook is stable.

### Other Economic Factors

- The District is a participating provider in the Region 20 Regional Healthcare Partnership (RHP) Delivery System Reform Incentive Payment (DSRIP) program under the Medicaid Section 1115(a) demonstration waiver. The Region 20 RHP is made up four counties whose overall population is approximately 330,000. The goals of the Region 20 Healthcare Transformation and Quality Improvement Program are to prioritize the local resources available to access the federal matching funds being allocated to the Region. This combination of local and federal funds will improve the overall health care delivery system and the access to care and quality of life of the participating communities.
- Health Care Reform legislation will require certain changes through 2014 to private and public healthcare plans, service delivery and reporting guidelines. The State of Texas in particular is already very much impacted for the non-expansion of the Medicaid Program. The impact of these changes cannot currently be determined with so many unknowns at this point. The District's plan is part of an essential blueprint for improved individual and population health at a lower cost. It is anticipated an increase in medical services in the near future due to population growth and the addition of specialty services customarily referred to out of town facilities. The property tax rate for fiscal year 2014 remained at \$0.07 per \$100 valuation.
- Continued growth in medical and pharmaceutical costs.
- Continued advances in health care medical equipment and computing technology.

### Significant Financial Practices

The District maintains several financial practices designed to maintain its credit-worthiness and to position the District to carry out its defined mission of providing health care to the residents of Maverick County, as well as its fiduciary responsibility to the taxpayers of Maverick County. Those practices are as follows:

- Monthly Financial Reporting: Board of Directors meets monthly and reviews the financial statements from the prior month. This information is presented to show actual monthly and year-to-date revenues and expenses compared to Budget. Management provides explanation for significant variances.
- Pay-As-You-Go Capital Funding: The District has maintained the practice to fund routine capital items under a pay-as-you-go basis. This has been done to minimize borrowing costs as well as maintain financial flexibility.

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

- **Budget Process:** The operating and capital budgets are discussed by the District's management and Budget/Financial Committee following the guidelines established by the Strategic Planning Committee. Final approval is obtained from the Board of Directors.

### **Contacting the District's Financial Management**

This financial report is designed to provide our program participants, suppliers, taxpayers and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the District's administration by telephoning 830.757.4990.

**MAVERICK COUNTY HOSPITAL DISTRICT  
BALANCE SHEETS  
AUGUST 31, 2014 AND 2013**

<b>ASSETS</b>	<b>2014</b>	<b>2013</b>
<b>CURRENT ASSETS</b>		
Cash	\$ 3,370,617	\$ 1,227,786
Short-term investments	5,945,431	3,177,012
Patient receivables (net of allowances of \$679,702 and \$613,667, respectively)	810,580	726,178
Property taxes receivable (net of allowances of \$356,590 and \$361,123, respectively)	277,464	264,168
Other receivable (net of allowances of \$364,458 and \$365,418, respectively)	490,598	747,447
Prepaid expenses and other	123,449	188,501
<b>Total current assets</b>	<b>11,018,139</b>	<b>6,331,092</b>
<b>NONCURRENT CASH AND INVESTMENTS</b>		
Internally designated for self-insurance reserves	2,002	100,052
Long-term investments	9,399,194	15,648,930
<b>Total noncurrent cash and investments</b>	<b>9,401,196</b>	<b>15,748,982</b>
<b>CAPITAL ASSETS, NET</b>	<b>5,372,024</b>	<b>5,697,548</b>
<b>TOTAL ASSETS</b>	<b>\$ 25,791,359</b>	<b>\$ 27,777,622</b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>CURRENT LIABILITIES</b>		
Accounts payable	\$ 189,151	\$ 245,117
Accrued expenses	239,362	204,877
<b>Total current liabilities</b>	<b>428,513</b>	<b>449,994</b>
<b>ESTIMATED PAYABLE FOR SELF-INSURED AMOUNTS</b>	<b>2,000</b>	<b>100,000</b>
<b>Total liabilities</b>	<b>430,513</b>	<b>549,994</b>
<b>NET POSITION</b>		
Net investment in capital assets	5,372,024	5,697,548
Unrestricted	19,988,822	21,530,080
<b>Total net position</b>	<b>25,360,846</b>	<b>27,227,628</b>
<b>TOTAL LIABILITIES AND NET POSITION</b>	<b>\$ 25,791,359</b>	<b>\$ 27,777,622</b>

The Notes to Financial Statements are an integral part of these statements.

**MAVERICK COUNTY HOSPITAL DISTRICT  
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION  
YEARS ENDED AUGUST 31, 2014 AND 2013**

	<u>2014</u>	<u>2013</u>
<b>OPERATING REVENUES</b>		
Program service revenue, net	\$ 3,310,544	\$ 2,608,743
Other	540,796	492,529
	<hr/>	<hr/>
<b>Total operating revenues</b>	3,851,340	3,101,272
 <b>OPERATING EXPENSES</b>		
Salaries and wages	2,582,416	2,280,995
Employee benefits	502,727	509,995
Purchased services and professional fees	933,323	920,026
Supplies and other	1,830,037	1,398,737
Professional liability insurance expense	57,374	45,512
Depreciation and amortization	436,236	446,215
	<hr/>	<hr/>
<b>Total operating expenses</b>	6,342,113	5,601,480
 <b>OPERATING LOSS</b>	(2,490,773)	(2,500,208)
 <b>NONOPERATING REVENUES (EXPENSES)</b>		
Property taxes	1,627,713	1,503,577
Upper payment limit program payments	(1,717,133)	(1,588,085)
Investment income	193,295	216,343
Noncapital grants	520,116	537,689
	<hr/>	<hr/>
<b>Total nonoperating revenues (expenses)</b>	623,991	669,524
 <b>Change in net position</b>	(1,866,782)	(1,830,684)
 <b>NET POSITION, beginning of year,</b>	<hr/>	<hr/>
	27,227,628	29,058,312
 <b>NET POSITION, end of year</b>	<hr/> <hr/>	<hr/> <hr/>
	\$ 25,360,846	\$ 27,227,628

The Notes to Financial Statements are an integral part of these statements.

**MAVERICK COUNTY HOSPITAL DISTRICT  
STATEMENTS OF CASH FLOWS  
YEARS ENDED AUGUST 31, 2014 AND 2013**

	<b>2014</b>	<b>2013</b>
<b>OPERATING ACTIVITIES</b>		
Receipts from and on behalf of program participants	\$ 3,463,405	\$ 2,190,407
Payments to suppliers	(2,811,648)	(2,493,825)
Payments to employees	(3,148,658)	(2,877,807)
Other receipts, net	560,383	552,321
<b>Net cash used in operating activities</b>	(1,936,518)	(2,628,904)
<b>NONCAPITAL FINANCING ACTIVITIES</b>		
Noncapital grants	520,116	537,689
Net upper payment limit program payments	(1,717,133)	(1,588,085)
Property taxes supporting operations	1,614,417	1,517,910
<b>Net cash provided by noncapital financing activities</b>	417,400	467,514
<b>CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Purchase of capital assets	(110,712)	(20,250)
<b>Net cash used in capital and related financing activities</b>	(110,712)	(20,250)
<b>INVESTING ACTIVITIES</b>		
Investment income	193,295	216,343
Proceeds from sale of investments	13,701,970	18,428,117
Purchase of investments	(10,122,604)	(18,452,118)
<b>Net cash provided by investing activities</b>	3,772,661	192,342
<b>Net increase (decrease) in cash</b>	2,142,831	(1,989,298)
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	1,227,786	3,217,084
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 3,370,617	\$ 1,227,786

The Notes to Financial Statements are an integral part of these statements.

**MAVERICK COUNTY HOSPITAL DISTRICT  
STATEMENTS OF CASH FLOWS  
YEARS ENDED AUGUST 31, 2014 AND 2013  
(CONTINUED)**

	2014	2013
<b>Reconciliation of Operating Loss to</b>		
<b>Net Cash Used in Operating Activities</b>		
Operating Loss	\$ (2,490,773)	\$ (2,500,208)
Depreciation and amortization	436,237	446,215
Changes in operating assets and liabilities		
Patient accounts receivables and other, net	172,447	(358,544)
Prepaid expenses and other assets	65,052	(66,962)
Accounts payable	(55,966)	(62,588)
Accrued expenses	(63,515)	(86,817)
<b>Net cash used in operating activities</b>	<b>\$ (1,936,518)</b>	<b>\$ (2,628,904)</b>

The Notes to Financial Statements are an integral part of these statements.



**MAVERICK COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Operations and Reporting Entity**

Maverick County Hospital District (the District) is a political subdivision of the State of Texas. The District is controlled by a five-member Board of Governors elected by the public. The purpose of the District is to provide medical services to residents of Maverick County through support of indigent care programs by area medical care providers and to provide educational services through direct community involvement. The District also recruits physicians of various specialties to Maverick County in an effort to expand the range of medical services in Maverick County.

**Basis of Accounting and Presentation**

The financial statements of the District have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated non-exchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated non-exchange transactions. Government-mandated non-exchange transactions that are not program specific, such as property taxes and investment income, are included in non-operating revenues and expenses. The District first applies restricted net assets when an expense or outlay is incurred for purposes for which both restricted and unrestricted net assets are available.

The District prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board that were issued on or before November 30, 1989, and do not conflict with or contradict GASB pronouncements.

**Cash and Cash Equivalents**

For purposes of the statements of cash flows, the District considers all temporary cash investments purchased with a maturity of three months or less to be cash equivalents. The District maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The District has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

**MAVERICK COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES – CONTINUED**

**Use of Estimates**

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

**Property Taxes**

The District received approximately 26 and 27 percent of its financial support from property taxes in 2014 and 2013, respectively. These funds were used to support the operations of the District. Property taxes are levied on October 1 of each year based on the assessed values as of the prior January 1. Taxes are due on receipt of the tax bill and are past due and subject to interest if not paid by February 1 of the year following the October 1 levy. Revenue from property taxes is recognized in the fiscal year of the levy.

**Risk Management**

The District 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 disasters; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than medical malpractice claims. Settled claims have not exceeded this commercial coverage in any of the three preceding periods.

**Investments and Investment Income**

Investments in certificates of deposit and mutual funds are carried at amortized cost. U.S. agency obligations are carried at cost and held to maturity. Fair value is determined using quoted market prices. Investment income includes dividend and interest income and the net change for the year in the fair value of investments.

**MAVERICK COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES – CONTINUED**

**Capital Assets**

Capital assets are recorded at cost at the date of acquisition or fair value at the date of donation, if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. The following estimated useful lives are being used by the District:

Land improvements	7-15 years
Buildings and leasehold improvements	25-40 years
Equipment	3-10 years

**Compensated Absences**

District 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. Expense and the related liability are recognized as vacation benefits when earned whether the employee is expected to realize the benefit as time off or in cash. 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 balance sheets date, plus an additional amount for compensation-related payments, such as social security and Medicare taxes computed using rates in effect at that date.

**Net Assets**

Net assets of the District are classified in two components. Net assets invested in capital assets consist of capital assets, net of accumulated depreciation. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets.

**MAVERICK COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 1. NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES – CONTINUED**

**Program Service Revenue**

Program service revenue includes net patient service revenue from services of physicians employed by the District. Program service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered, and include estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods, as adjustments become known. The District's physician group provided approximately \$285,000 and \$197,000 in indigent care to participants in the District's indigent care program in 2014 and 2013, respectively.

Program service revenue also includes revenue from the collection of coinsurance or cost-sharing payments from individuals who receive medical care under the District's indigent care program. These payments are based on a sliding scale of federal poverty guidelines.

**Income Taxes**

As an essential government function of the State of Texas, the District is generally exempt from federal and state income taxes under Section 315 of the Internal Revenue Code and a similar provision of state law. However, the District is subject to federal income tax on any unrelated business taxable income.

**NOTE 2. DEPOSITS, INVESTMENTS AND INVESTMENT INCOME**

**Deposits**

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

State law requires collateralization of all deposits with federal depository insurance; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; bonds of any city, county, school district or special road district of the State of Texas; bonds of any state; or a surety bond having an aggregate value at least equal to the amount of the deposits

**MAVERICK COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2. DEPOSITS, INVESTMENTS AND INVESTMENT INCOME – CONTINUED**

**Deposits – Continued**

At August 31, 2014 and 2013, the District's deposits were either insured or collateralized in accordance with state law.

**Investments**

The District may legally invest in direct obligations of and other obligations guaranteed as to principal by the U.S. Treasury and U.S. agencies and instrumentalities and in bank repurchase agreements. At August 31, 2013 and 2012, the District had the following investments and maturities:

Type	August 31, 2014				
	Carrying Value	Maturities in Years			
		Less Than 1	1 - 5	6 -10	More Than 10
U.S. agencies obligations	\$ 3,980,000	\$ -	\$ 3,980,000	\$ -	\$ -
Certificates of deposit	11,364,625	5,945,431	5,419,194	-	-
Total Investments	<u>\$ 15,344,625</u>	<u>\$ 5,945,431</u>	<u>\$ 9,399,194</u>	<u>\$ -</u>	<u>\$ -</u>
Type	August 31, 2013				
	Carrying Value	Maturities in Years			
		Less Than 1	1 - 5	6 -10	More Than 10
U.S. agencies obligations	\$ 5,400,000	\$ -	\$ 5,400,000	\$ -	\$ -
Certificates of deposit	13,425,942	3,177,012	10,248,930	-	-
Total Investments	<u>\$ 18,825,942</u>	<u>\$ 3,177,012</u>	<u>\$ 15,648,930</u>	<u>\$ -</u>	<u>\$ -</u>

*Interest Rate Risk* - As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy limits the allowable stated maturity for any individual investment owned by the District to five years.

*Credit Risk* - Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. It is the District's policy to limit its investments in corporate bonds to the top two ratings issued by nationally recognized statistical rating organizations (NRSROs). At August 31, 2014 and 2013, the District held no investments in corporate bonds. At these dates, the District's investments in U.S. agencies obligations not directly guaranteed by the U.S. government were rated "Aaa" by Moody's Investors Service.

**MAVERICK COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2. DEPOSITS, INVESTMENTS AND INVESTMENT INCOME – CONTINUED**

**Investments – Continued**

*Custodial Credit Risk* - For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party. All of the underlying securities for the District's investments are held by the counterparties in other than the District's name.

*Concentration of Credit Risk* - As a means of limiting the risk of loss resulting from over concentration of assets in any one issuer, it is the District's policy to diversify investment holdings to provide for stability of income and reasonable liquidity. At August 31, 2014 and 2013, the District's investments in Federal National Mortgage Association obligations constituted 13 and 9 percent, of its total investments. At August 31, 2014 and 2013, the District's investments in Federal Farm Credit Bank obligations constituted 22 and 19 percent, of its total investments. At August 31, 2014, the District's investments in Federal Home Loan Mortgage Corporation and Federal Home Loan Banks obligations constituted 40 and 25 percent, respectively, of its total investments.

**Summary of Carrying Values**

The carrying values of deposits and investments shown previously are included in the balance sheet, as shown below:

	<u>2014</u>	<u>2013</u>
Carrying value		
Deposits	\$ 10,116,244	\$ 9,286,780
Investments	<u>8,601,000</u>	<u>10,867,000</u>
	<u>\$ 18,717,244</u>	<u>\$ 20,153,780</u>

Included in the following balance sheets captions:

	<u>2014</u>	<u>2013</u>
Cash	\$ 3,370,617	\$ 1,227,786
Short-term investments	5,945,431	3,177,012
Noncurrent cash and investments	<u>9,401,196</u>	<u>15,748,982</u>
	<u>\$ 18,717,244</u>	<u>\$ 20,153,780</u>

**MAVERICK COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 2. DEPOSITS, INVESTMENTS AND INVESTMENT INCOME – CONTINUED**

**Investments – Continued**

Investment income for the years ended August 31, 2014 and 2013 consisted of:

	2014	2013
Interest and dividend income	\$ 193,295	\$ 216,396
Net increase (decrease) in fair value of investments	-	(53)
	\$ 193,295	\$ 216,343

**NOTE 3. CAPITAL ASSETS**

Capital assets activity for the year ended August 31, 2014 was:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 94,500	\$ -	\$ -	\$ -	\$ 94,500
Land improvements	128,327	15,913	-	-	144,240
Buildings and improvements	7,335,686	-	-	-	7,335,686
Equipment	1,381,304	94,799	-	-	1,476,103
	8,939,817	110,712	-	-	9,050,529
Less accumulated depreciation					
Land improvements	64,331	6,652	-	-	70,983
Buildings and improvements	2,106,104	355,954	-	-	2,462,058
Equipment	1,071,834	73,630	-	-	1,145,464
	3,242,269	436,236	-	-	3,678,505
Capital assets, net	\$ 5,697,548	\$ (325,524)	\$ -	\$ -	\$ 5,372,024

**MAVERICK COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 3. CAPITAL ASSETS – CONTINUED**

Capital assets activity for the year ended August 31, 2013 was:

	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Land	\$ 94,500	\$ -	\$ -	\$ -	\$ 94,500
Land improvements	124,967	3,360	-	-	128,327
Buildings and improvements	6,823,961	-	-	511,725	7,335,686
Equipment	1,364,415	16,889	-	-	1,381,304
Construction in progress	511,725	-	-	(511,725)	-
	8,919,568	20,249	-	-	8,939,817
Less accumulated depreciation					
Land improvements	56,255	8,076	-	-	64,331
Buildings and improvements	1,750,659	355,445	-	-	2,106,104
Equipment	989,140	82,694	-	-	1,071,834
	2,796,054	446,215	-	-	3,242,269
Capital assets, net	<u>\$ 6,123,514</u>	<u>\$ (425,966)</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,697,548</u>

Depreciation expense totaled approximately \$436,000 for year ended August 31, 2014 and approximately \$446,000 for the year ended August 31, 2013.

**NOTE 4. INSURANCE CLAIMS**

**General Liability**

The District has joined the Texas Municipal League Intergovernmental Risk Pool (the Pool), currently operating as a common risk management and insurance program for its members. The District pays an annual premium to the Pool for its general liability torts insurance coverage. The Pool's governing agreement specifies that the Pool will be self-sustaining through member premiums.



**MAVERICK COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 4. INSURANCE CLAIMS – CONTINUED**

**Medical Malpractice**

The District is a unit of government covered by the Texas Tort Claims Act (TTCA) which, by statute, limits its liability to \$100,000 per person and \$300,000 per occurrence. The District was self-insured for medical malpractice risks, until June 30, 2011, at which time, the District was insured by a third party, up to the limits established by the TTCA, related to incidents prior to the sale of 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 period by estimating the probable ultimate costs of the incidents. The District paid no malpractice claims in 2013 and paid \$98,000 in claims during 2014. The District did not record an estimated liability for malpractice claims for 2014 for unreported claims related to its physician practice.

**NOTE 5. PENSION PLAN**

**Plan Description**

The District provides retirement benefits for all of its full-time and part-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of approximately 600 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar-year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with eight or more years of service; with 20 years of service, regardless of age; or when the sum of their age and years of service equals 75 or more. Members are vested after eight years of service 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 their employer.

**MAVERICK COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5. PENSION PLAN – CONTINUED**

**Plan Description – Continued**

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 employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, 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 the TCDRS Act.

**Funding Policy**

The District has elected the annually determined contribution rate plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the annual employer contribution rate of 8.16% for calendar year 2013 was actuarially determined. The contribution rate payable by the employee member is 7% as adopted by the District's governing body. The employee and employer contribution rates may be changed by the District's governing body within the options available in the TCDRS Act.

**Three-Year Trend Information**

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
8/31/2012	\$ 156,548	100%	\$ -
8/31/2013	178,985	100%	-
8/31/2014	117,740	100%	-

**MAVERICK COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 5. PENSION PLAN – CONTINUED**

**Annual Pension Cost**

The District's annual pension cost for the TCDRS plan was \$117,740 and \$178,985 for 2014 and 2013, respectively, while its employees contributed \$152,849 and \$147,479 for 2014 and 2013, respectively, to the plan.

The required contribution for 2014 was determined based on the results of an actuarial valuation as of December 31, 2013 and 2012, using the entry age actuarial cost method. The actuarial assumptions included (a) 8.0 percent investment rate of return (net of administrative expenses) and (b) projected salary increases of 4.9 percent. Both (a) and (b) include an inflation component of 3.0 percent. The actuarial value of assets was determined using techniques that spread the effect of short-term volatility in the market value of investments over a ten-year period. The unfunded actuarial accrued liability is being amortized as a level percentage of projected payrolls on an open basis. The remaining amortization period at December 31, 2014 and 2013, was 30 and 20 years, respectively.

**Funding Status and Funding Progress**

As of December 31, 2013, the most recent actuarial valuation date, the plan was 124.85 percent funded. The actuarial accrued liability for benefits was \$2,190,360, and the actuarial value of assets was \$2,734,695, resulting in an overfunded actuarial accrued liability (OAAL) of \$544,335.

The covered payroll (annual payroll of active employees covered by the plan) was \$2,183,550 and the ratio of OAAL to the covered payroll was 24.93 percent.

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability.

**NOTE 6. OPERATING LEASES**

The District leases office space in its medical office building to unrelated parties. All of the District's existing leases are cancellable with 15 days prior written notice. Rental income was approximately \$212,000 and \$225,000 for 2014 and 2013, respectively, and is recognized as a component of other operating revenue in the statements of revenues, expenses and changes in net assets.

**MAVERICK COUNTY HOSPITAL DISTRICT  
NOTES TO FINANCIAL STATEMENTS**

**NOTE 6. OPERATING LEASES – CONTINUED**

The District leases equipment in Eagle Pass, Texas, under an agreement classified as an operating lease. Rent expense under this agreement totaled \$19,824 for the year ended August 31, 2014. Future minimum lease payments under this agreement are as follows:

Year ending August 31,	
2015	\$ 19,824
2016	<u>16,520</u>
	<u>\$ 36,344</u>

**NOTE 7. COMMITMENTS AND CONTINGENCIES**

**Litigation**

In the normal course of business, the District is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by commercial insurance (e.g., allegations regarding employment practices or performance of contracts). The District evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of legal counsel, management records an estimate of the amount of ultimate expected loss, if any, for each. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

**Health Care Reform**

During 2011, Congress passed legislation that will significantly reform the United States health care system. The legislation will required certain changes through 2014 to private and public health care insurance plans, including the Texas Medicaid program. While the impact of these regulatory changes cannot currently be determined, it is reasonably possible that these changes will negatively impact the District's program service revenue.

**NOTE 8. INDIGENT CARE**

As discussed in Note 1, the primary purpose of the District is to provide medical services to residents of Maverick County through support of indigent care programs at area medical care providers. The District continues to expand its indigent care program by qualifying indigent citizens of Maverick County for discounted medical care. As part of its mission of providing indigent care to citizens of Maverick County, the District participates in the upper payment limit program.

**REQUIRED SUPPLEMENTARY INFORMATION**

**MAVERICK COUNTY HOSPITAL DISTRICT  
SCHEDULE OF FUNDING PROGRESS FOR TEXAS COUNTY AND DISTRICT  
RETIREMENT SYSTEM FOR MAVERICK COUNTY HOSPITAL DISTRICT  
AUGUST 31, 2014**

Actuarial Valuation Date	Actuarial Value of Asset (a)	Actuarial Accrued Liability (AAL) (b)	Overfunded (unfunded) AAL (OAAL/UAAL) (a-b)	Funded Ratio (a/b)	Annual Covered Payroll (c)	OAAL/UAAL as a Percentage of Covered Payroll ((b-a)/c)
12/31/2011	\$ 1,660,130	\$ 1,344,864	\$ 315,266	123.44	\$ 1,686,573	18.69 %
12/31/2012	2,109,948	1,579,461	530,487	133.59	1,818,820	29.17
12/31/2013	2,734,695	2,190,360	544,335	124.85	2,183,550	24.93