

Maverick County Hospital District

Independent Auditor's Report and Financial Statements

August 31, 2015 and 2014



Maverick County Hospital District
August 31, 2015 and 2014

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Independent Auditor's Report

Board of Directors
Maverick County Hospital District
Eagle Pass, Texas

We have audited the accompanying balance sheet of Maverick County Hospital District (District), as of August 31, 2015, and the related statements of revenues, expenses and changes in net position and cash flows for the year then ended, and the related notes to the financial statements, which collectively comprise the District'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 audit. We conducted our audit 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 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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the District as of August 31, 2015, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Year Audited by Other Auditors

The 2014 financial statements were audited by other auditors and their report thereon, dated December 23, 2014, expressed an unmodified opinion.

Emphasis of Matter

As discussed in *Note 1*, in 2015, the District changed its method of accounting for pension plans in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27, as amended*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information listed in the table of contents be presented to supplement the basic financial statements. Such information, although not 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 audits 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.

BKD, LLP

Dallas, Texas
March 4, 2016

Maverick County Hospital District

Management's Discussion and Analysis

Years Ended August 31, 2015 and 2014

Introduction

This management's discussion and analysis of the financial performance of Maverick County Hospital District (District) provides an overview of the District's financial activities for the years ended August 31, 2015 and 2014. It should be read in conjunction with the accompanying financial statements of the District.

Financial Highlights

- Cash and investments decreased in 2015 by \$502,239, or 2.7%, and decreased in 2014 by \$1,436,536, or 7.1%.
- The District's net position increased in 2015 by \$370,374, or 1.5% , and decreased in 2014 by \$1,866,775, or 6.9% .
- The District reported an operating loss in 2015 of \$2,297,565 and an operating loss in 2014 of \$2,490,773. The operating loss decreased in 2015 by \$193,208, or 7.8%.
- Net nonoperating revenues increased by \$1,068,344, or 171.2% , in 2015 compared to 2014 and decreased by \$45,530, or 6.8% , in 2014 compared to 2013.

Using This Annual Report

The District's financial statements consist of three statements—a balance sheet; a statement of revenues, expenses and changes in net position; and a statement 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 position 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, all liabilities and all deferred inflows and outflows of resources 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 position and changes in it. The District's total net position—the difference between assets and deferred outflows of resources and liabilities and deferred inflows of resources – is one measure of the District's financial health or financial position. Over time, increases or decreases in the District's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the District's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients, and local economic factors should also be considered to assess the overall financial health of the District.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments, and net changes in cash and cash equivalents 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 and cash equivalents during the reporting period.

The District's Net Position

The District's net position is the difference between the sum of its assets and deferred outflows of resources, and its liabilities and deferred inflows of resources as reported in the balance sheets. The District's net position increased by \$370,374, or 1.5% , in 2015 over 2014 and decreased by \$1,886,775, or 6.9%, in 2014 over 2013 as shown in *Table 1*.

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

	2015	2014	2013
Assets			
Cash and cash equivalents	\$ 1,443,084	\$ 3,370,617	\$ 1,227,786
Investments	16,771,921	15,346,627	18,925,994
Receivables and other assets, net	2,183,193	1,702,091	1,926,294
Capital assets, net	4,795,909	5,372,024	5,697,548
Net pension asset	828,559	-	-
Total assets	26,022,666	25,791,359	27,777,622
Deferred Outflows of Resources	130,881	-	-
Total assets and deferred outflows of resources	<u>\$ 26,153,547</u>	<u>\$ 25,791,359</u>	<u>\$ 27,777,622</u>
Liabilities	<u>\$ 416,825</u>	<u>\$ 430,513</u>	<u>\$ 549,994</u>
Deferred Inflows of Resources	5,502	-	-
Net Position			
Net investment in capital assets	4,795,909	5,372,024	5,697,548
Unrestricted	20,935,311	19,988,822	21,530,080
Total net position	<u>25,731,220</u>	<u>25,360,846</u>	<u>27,227,628</u>
Total liabilities, deferred inflows of resources and net position	<u>\$ 26,153,547</u>	<u>\$ 25,791,359</u>	<u>\$ 27,777,622</u>

Effective September 1, 2014, the District changed its method of accounting pension plans in accordance with GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27, as amended* (GASB 68), and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB Statement No. 68*. As a result of the adoption of GASB 68, the District recognized a net pension asset which was approximately \$829,000 at August 31, 2015. The District’s 2014 and 2013 financial statements were not restated for GASB 68.

In addition, the District’s cash and investments decreased in 2015 and 2014. Total cash and investments decreased in 2015 by \$502,239, or 2.7%, and decreased in 2014 by \$1,436,536, or 7.1%.

Operating Results and Changes in the District's Net Position

In 2015, the District's total net position decreased, before the impact of the adoption of GASB 68, by \$605,230, or 2.4% , as shown in *Table 2*. This decrease is made up of several different components and represents a 67.6% improvement as compared with the decrease in net position in 2014. In 2014, the District’s total net position decreased by \$1,866,782, or 6.9%, as shown in *Table 2*.

Table 2: Operating Results and Changes in Net Position

	2015	2014	2013
Operating Revenues			
Net patient service revenue	\$ 3,051,205	\$ 3,310,544	\$ 2,608,743
Other	682,995	540,796	492,529
Total operating revenues	<u>3,734,200</u>	<u>3,851,340</u>	<u>3,101,272</u>
Operating Expenses			
Salaries and wages and employee benefits	3,043,904	3,085,143	2,790,990
Purchased services and professional fees	1,039,527	933,323	920,026
Depreciation and amortization	449,375	436,236	446,215
Supplies and other	1,498,959	1,887,411	1,444,249
Total operating expenses	<u>6,031,765</u>	<u>6,342,113</u>	<u>5,601,480</u>
Operating Loss	<u>(2,297,565)</u>	<u>(2,490,773)</u>	<u>(2,500,208)</u>
Nonoperating Revenues (Expenses)			
Property taxes	1,977,941	1,627,713	1,503,577
Investment income	181,470	193,295	216,343
Noncapital grants	532,686	520,116	537,689
Indigent care and Medicaid waiver payments	(999,762)	(1,717,133)	(1,588,085)
Total nonoperating revenues	<u>1,692,335</u>	<u>623,991</u>	<u>669,524</u>
Decrease in Net Position	<u><u>\$ (605,230)</u></u>	<u><u>\$ (1,866,782)</u></u>	<u><u>\$ (1,830,684)</u></u>

Operating Losses

The first component of the overall change in the District's net position is its operating income or loss—the difference operating revenues and the expenses incurred to perform those services.

In 2015, 2014 and 2013, the District reported operating losses. This is consistent with the District's recent operating history as the District was formed and is operated primarily to support health care for low income residents in Maverick County. The District levies property taxes to provide sufficient resources to support that mission.

The operating loss for 2015 decreased by \$193,208, or 7.8%, as compared to the operating loss in 2014. The primary component of the change in the operating loss in 2015 loss is the decrease in operating expenses of approximately \$310,000, which is mostly due to a reduction in medication expense. The operating loss for 2014 decreased by \$9,435, or 0.4%, as compared to the operating loss in 2013.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of property taxes levied by the District, investment income, noncapital grants, and indigent care and Medicaid waiver related payments. Total nonoperating revenues and expenses increased by \$1,068,344, or 171.2%, between 2015 and 2014. The increase was primarily due to a decrease in indigent care and Medicaid waiver related payments of approximately \$717,000 and an increase in property tax revenue of approximately \$350,000.

Nonoperating revenues and expenses decreased in 2014 as compared to 2013 by approximately \$46,000, 6.8%.

The District's Cash Flows

Changes in the District's cash flows are consistent with changes in operating losses and nonoperating revenues and expenses for 2015, 2014, and 2013 discussed earlier.

Capital Asset and Debt Administration

Capital Assets

At the end of 2015, the District had \$4,795,909 invested in capital assets, net of accumulated depreciation. In 2015, the District purchased new equipment costing approximately \$50,000, and sold a building with a cost of \$310,980 and accumulated depreciation of \$145,660, as well as equipment with an approximate cost of \$87,000 and \$77,000 in accumulated depreciation. At the end of 2014, the District had \$5,372,024 invested in capital assets, net of accumulated depreciation. In 2014, the District purchased new equipment costing approximately \$111,000, which included medical furniture, software and other equipment.

Debt

The District had no debt at August 31, 2015, 2014, or 2013.

Contacting the District's Financial Management

This financial report is designed to provide our patients, 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 Maverick County Hospital District at 3406 Bob Rogers Drive Suite 250, Eagle Pass, TX 78852.

Maverick County Hospital District
Balance Sheets
August 31, 2015 and 2014

Assets and Deferred Outflows of Resources

	<u>2015</u>	<u>2014</u>
Current Assets		
Cash and cash equivalents	\$ 1,443,084	\$ 3,370,617
Short-term investments	3,703,019	5,945,431
Patient accounts receivables, net of allowance; 2015—\$726,000, 2014—\$680,000	785,432	810,580
Property taxes receivable, net of allowance; 2015—\$377,000, 2014—\$357,000	297,589	277,464
Other receivables, net of allowance; 2015—\$343,000, 2014—\$364,000	598,840	490,598
Prepaid expenses and other	<u>501,332</u>	<u>123,449</u>
Total current assets	<u>7,329,296</u>	<u>11,018,139</u>
Noncurrent Cash and Investments		
Other long-term investments	<u>13,068,902</u>	<u>9,401,196</u>
Capital Assets, Net	<u>4,795,909</u>	<u>5,372,024</u>
Net Pension Asset	<u>828,559</u>	<u>-</u>
Total assets	<u>26,022,666</u>	<u>25,791,359</u>
Deferred Outflows of Resources	<u>130,881</u>	<u>-</u>
Total assets and deferred outflows of resources	<u><u>\$ 26,153,547</u></u>	<u><u>\$ 25,791,359</u></u>

Maverick County Hospital District
Balance Sheets (Continued)
August 31, 2015 and 2014

**Liabilities, Deferred Inflows of Resources,
and Net Position**

	2015	2014
Current Liabilities		
Accounts payable	238,838	189,151
Accrued expenses	177,987	241,362
Total current liabilities	416,825	430,513
Deferred Inflows of Resources	5,502	-
Net Position		
Net investment in capital assets	4,795,909	5,372,024
Unrestricted	20,935,311	19,988,822
Total net position	25,731,220	25,360,846
Total liabilities, deferred inflows of resources, and net position	\$ 26,153,547	\$ 25,791,359

Maverick County Hospital District
Statements of Revenues, Expenses and Changes in Net Position
Years Ended August 31, 2015 and 2014

	2015	2014
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2015—\$9,676,000, 2014—\$6,037,000	\$ 3,051,205	\$ 3,310,544
Other	682,995	540,796
Total operating revenues	3,734,200	3,851,340
Operating Expenses		
Salaries and wages	2,540,952	2,582,416
Employee benefits	502,952	502,727
Purchased services and professional fees	1,039,527	933,323
Supplies and other	1,437,926	1,830,037
Professional liability insurance expense	61,033	57,374
Depreciation and amortization	449,375	436,236
Total operating expenses	6,031,765	6,342,113
Operating Loss	(2,297,565)	(2,490,773)
Nonoperating Revenues (Expenses)		
Property taxes	1,977,941	1,627,713
Investment income	181,470	193,295
Noncapital grants and gifts	532,686	520,116
Indigent care and Medicaid waiver payments	(999,762)	(1,717,133)
Total nonoperating revenues	1,692,335	623,991
Decrease in Net Position	(605,230)	(1,866,782)
Net Position, Beginning of Year, as Previously Reported	25,360,846	27,227,628
Change in Accounting Principle	975,604	-
Net Position, Beginning of Year, as Restated	26,336,450	27,227,628
Net Position, End of Year	\$ 25,731,220	\$ 25,360,846

Maverick County Hospital District
Statements of Cash Flows
Years Ended August 31, 2015 and 2014

	2015	2014
Operating Activities		
Receipts from and on behalf of patients and program participants	\$ 3,372,557	\$ 3,463,405
Payments to suppliers	(2,437,894)	(2,811,648)
Payments to employees	(3,085,612)	(3,148,658)
Other (payments) receipts, net	(252,249)	560,383
Net cash used in operating activities	(2,403,198)	(1,936,518)
Noncapital Financing Activities		
Property taxes supporting operations	1,957,816	1,614,417
Noncapital grants and gifts	532,686	520,116
Medicaid waiver program payments	(721,361)	(1,717,133)
Net cash provided by noncapital financing activities	1,769,141	417,400
Capital and Related Financing Activities		
Purchase of capital assets	(49,652)	(110,712)
Net cash used in capital and related financing activities	(49,652)	(110,712)
Investing Activities		
Investment income	181,470	193,295
Purchase of investments	(7,130,295)	(10,122,604)
Proceeds from sale of investments	5,705,001	13,701,970
Net cash provided by (used in) investing activities	(1,243,824)	3,772,661
Increase (Decrease) in Cash and Cash Equivalents	(1,927,533)	2,142,831
Cash and Cash Equivalents, Beginning of Year	3,370,617	1,227,786
Cash and Cash Equivalents, End of Year	\$ 1,443,084	\$ 3,370,617

Maverick County Hospital District
Statements of Cash Flows (Continued)
Years Ended August 31, 2015 and 2014

	2015	2014
Reconciliation of Net Operating Revenues (Expenses) to		
Net Cash Used in Operating Activities		
Operating loss	\$ (2,297,565)	\$ (2,490,773)
Depreciation and amortization	449,375	436,237
Gain on sale of capital asset	(188,812)	-
Changes in operating assets and liabilities:		
Patient accounts receivable and other, net	(253,253)	172,447
Prepaid expenses and other assets	(13,540)	65,052
Accounts payable	(102,737)	(55,966)
Accrued expenses	3,334	(63,515)
	\$ (2,403,198)	\$ (1,936,518)
Supplemental Cash Flows Information		
Proceeds due from sale of building	\$ 367,608	\$ -

Maverick County Hospital District

Notes to Financial Statements

August 31, 2015 and 2014

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations and Reporting Entity

Maverick County Hospital 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, liabilities, and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, property taxes and investment income are included in nonoperating revenues and expenses. The District first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

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.

Cash Equivalents

The District considers all liquid investments with original maturities of three months or less to be cash equivalents. At August 31, 2015 and 2014, cash equivalents consisted primarily of money market mutual funds.

Property Taxes

The District received approximately 46% in 2015 and 36% in 2014 of its financial support from property taxes. These funds were used to support operations.

Maverick County Hospital District
Notes to Financial Statements
August 31, 2015 and 2014

Property taxes are levied by the District on October 1st of each year based on the preceding January 1st assessed property values. To secure payment, an enforceable lien attaches to the property on January 1st, when the value is assessed. Property taxes become due and payable when levied on October 1st. This is the date on which an enforceable legal claim arises and the District records a receivable for the property tax assessment, less an allowance for uncollectible taxes. Property taxes are considered delinquent after January 31st of the following year.

The District's property tax rate was \$.0800 and \$.0700 per \$100 valuation for the years ending August 31, 2015 and 2014, respectively. Property tax revenue totaled \$1,977,941 and \$1,627,713 for 2015 and 2014, respectively.

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 U.S. Treasury, agency and instrumentality obligations with a remaining maturity of one year or less at time of acquisition and in nonnegotiable certificates of deposit are carried at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market prices.

Investment income includes dividend and interest income.

Patient Accounts Receivable

The District reports patient accounts receivable for services rendered at net realizable amounts from third-party payers, patients and others. The District provides an allowance for uncollectible accounts based upon a review of outstanding receivables, historical collection information and existing economic conditions.

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 improvements	25-40 years
Equipment	3-10 years

Maverick County Hospital District
Notes to Financial Statements
August 31, 2015 and 2014

Defined Benefit Pension Plan

The District provides pension benefits to its employees through an agent multiple-employer defined benefit pension plan operated by the Texas County and District Retirement System (Plan). For purposes of measuring the net pension asset, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. 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.

Deferred Outflows/Inflows of Resources

Transactions not meeting the definition of an asset or liability that result in the consumption or acquisition of net position in one period that are applicable to future periods are reported as deferred outflows of resources and deferred inflow of resources.

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 expenses 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 sheet 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 Position

Net position of the District is classified in two components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets.

Maverick County Hospital District

Notes to Financial Statements

August 31, 2015 and 2014

Net Patient Service Revenue

Net patient service revenue is derived from services of physicians employed by the District. Net patient 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 \$278,000 and \$285,000 in indigent care to participants in the District's indigent care program in 2015 and 2014, respectively.

Net patient 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

The District is generally exempt from federal and state income taxes under Section 115 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.

Change in Accounting Principle

The Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – An Amendment of GASB Statement No. 27* (GASB 68), which was amended by GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, issued in November 2013. In addition to making changes to how annual pension expense is to be calculated for defined benefit pension plans, the standard also requires that governmental entities record an asset or liability in their financial statements that is equal to the net pension asset or liability. Historically, governmental entities have only been required to record a liability, if any, for the difference between annual pension cost (APC) and the amount of APC contributed to the plan. Restatement of the 2014 financial statements is not practical because prior year information calculated under the provisions of GASB 68 is not available; accordingly, the District has reported the cumulative effect of applying GASB 68 as a restatement of net position as of September 1, 2014. This restatement increased the previously reported net position by \$975,604 to recognize the net pension asset and related deferred outflows of resources.

Reclassifications

Certain reclassifications have been made to the 2014 financial statements to conform to the 2015 presentation. The reclassifications had no effect on the changes in financial position.

Maverick County Hospital District
Notes to Financial Statements
August 31, 2015 and 2014

Note 2: Indigent Care

As discussed in *Note 1*, the primary purpose of the District is to provide medical services to residents of Maverick County. This is done through support of indigent care programs at area medical providers. As part of its mission of providing indigent care to citizens of Maverick County, the District participates in the Medicaid Section 1115(a) Waiver program, a program designed to benefit hospitals that service low income and indigent patients. As part of the program, certain governmental entities, including hospital districts, advance funds which are matched with federal funding. Based on specific requirements, all funds are then disbursed to providers throughout Texas. In connection with this program, the District transferred funds in the amount of \$721,361 and \$1,431,751 for the years ended August 31, 2015 and 2014, respectively.

Note 3: Deposits 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 or other qualified investments. At August 31, 2015 and 2014, 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.

Maverick County Hospital District
Notes to Financial Statements
August 31, 2015 and 2014

At August 31, 2015 and 2014, the District had the following investments and maturities:

Type	August 31, 2015		
	Fair Value	Maturities in Years	
		Less than 1	1-5
U.S. agencies obligations	\$ 7,415,496	\$ -	\$ 7,415,496
Negotiable certificates of deposit	1,205,264	2,700,000	
Money market mutual funds	200,965	200,965	-
	<u>\$ 8,821,725</u>	<u>\$ 2,900,965</u>	<u>\$ 7,415,496</u>
		August 31, 2014	
Type	Fair Value	Maturities in Years	
		Less than 1	1-5
U.S. agencies obligations	\$ 3,980,000	\$ -	\$ 3,980,000
Negotiable certificates of deposit	2,776,487	4,154,438	-
	<u>\$ 6,756,487</u>	<u>\$ 4,154,438</u>	<u>\$ 3,980,000</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 requires that total investments have a weighted-average maturity of five years or less. The District’s investments in U.S. agency obligations include fixed-rate notes and bonds with a weighted average maturity of three years. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

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 to U.S. Treasury and agency obligations or otherwise follow the restrictions of the Texas Public Funds Investment Act. The debt securities of the U.S agencies are rated AA+ by Standard & Poor’s rating agency at August 31, 2015 and 2014. The money market mutual funds invested by the District are rated as AAAM by Standard & Poor’s at August 31, 2015 and 2014.

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 District’s investments are held in safekeeping or trust accounts.

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.

Maverick County Hospital District
Notes to Financial Statements
August 31, 2015 and 2014

The following table reflects the District's investments in single issuers that represent more than 5% of total investments at August 31, 2015 and 2014.

	2015	2014
Federal Home Loan Bank	22%	25%
Federal National Mortgage Association	11%	13%
Federal Farm Credit Bank	34%	22%
Federal Home Loan Mortgage Corporation	16%	40%

Summary of Carrying Values

The carrying values of deposits and investments shown above are included in the balance sheets as follows:

	2015	2014
Carrying value		
Deposits	\$ 9,393,280	\$ 11,960,757
Investments	<u>8,821,725</u>	<u>6,756,487</u>
	<u>\$ 18,215,005</u>	<u>\$ 18,717,244</u>
Included in the following balance sheet captions		
Cash and cash equivalents	\$ 1,443,084	\$ 3,370,617
Short-term investments	3,703,019	5,945,431
Noncurrent cash and investments	<u>13,068,902</u>	<u>9,401,196</u>
	<u>\$ 18,215,005</u>	<u>\$ 18,717,244</u>

Investment Income

Investment income consisted of interest income of \$181,470 and \$193,295 for the years ended August 31, 2015 and 2014, respectively.

Maverick County Hospital District
Notes to Financial Statements
August 31, 2015 and 2014

Note 4: Capital Assets

Capital assets activity for the years ended August 31, was:

	2015			
	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 94,500	\$ -	\$ (94,500)	\$ -
Land improvements	144,240	-	(49,760)	94,480
Buildings and improvements	7,335,686	-	(166,719)	7,168,967
Equipment	1,476,103	49,652	(87,485)	1,438,270
	<u>9,050,529</u>	<u>49,652</u>	<u>(398,464)</u>	<u>8,701,717</u>
Less accumulated depreciation:				
Land improvements	70,983	8,828	(45,348)	34,463
Buildings and improvements	2,462,058	355,955	(100,312)	2,717,701
Equipment	1,145,464	84,592	(76,412)	1,153,644
	<u>3,678,505</u>	<u>449,375</u>	<u>(222,072)</u>	<u>3,905,808</u>
Capital assets, net	<u>\$ 5,372,024</u>	<u>\$ (399,723)</u>	<u>\$ (176,392)</u>	<u>\$ 4,795,909</u>
	2014			
	Beginning Balance	Additions	Disposals	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
	<u>8,939,817</u>	<u>110,712</u>	<u>-</u>	<u>9,050,529</u>
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
	<u>3,242,269</u>	<u>436,236</u>	<u>-</u>	<u>3,678,505</u>
Capital assets, net	<u>\$ 5,697,548</u>	<u>\$ (325,524)</u>	<u>\$ -</u>	<u>\$ 5,372,024</u>

Maverick County Hospital District
Notes to Financial Statements
August 31, 2015 and 2014

Note 5: Risk Management

General Liability Risks

The District participates in the Texas Municipal League Intergovernmental Risk Pool (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.

Medical Malpractice Risks

The District is a unit of government covered by the Texas Tort Claims Acts (TTCA) which, by statute, limits its malpractice 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. To cover such risks, the District purchases medical malpractice insurance under an occurrence-basis policy on a fixed premium basis. 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 District's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

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 30 days prior written notice. Rental income was approximately \$218,000 and \$212,000 for 2015 and 2014, respectively, and is recognized as a component of non-operating revenue in the statements of revenues, expenses and changes in net assets.

Maverick County Hospital District
Notes to Financial Statements
August 31, 2015 and 2014

Note 7: Pension Plan

Plan Description

The District contributes to the Texas County and District Retirement System (TCDRS), an agent multiple-employer defined benefit pension plan covering substantially all employees. 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 District's governing body within the options available in the state statutes governing TCDRS. The Plan does not issue a separate report that includes financial statements and required supplementary information for the plan. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034 or from the website 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 District 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 District 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 the TCDRS.

Members can retire at ages 60 and above with eight or more years of service or with 30 years regardless of age, or when the sum of their age and years of service equals 75 or more. A member is vested after eight years but must leave his accumulated contributions in the Plan to receive any employer-financed benefit. If a member withdraws his personal contributions in a lump sum, he is not entitled to any amounts contributed by the employer.

The Plan has been adopted in lieu of the normal requirement that employers contribute to the social security program (other than for the Medicare portion).

The employees covered by the Plan at December 31, 2014 (measurement date) are:

	2014
Inactive employees or beneficiaries currently receiving benefits	1
Inactive employees entitled to but not yet receiving benefits	31
Active employees	45
	77

Maverick County Hospital District
Notes to Financial Statements
August 31, 2015 and 2014

Contributions

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

The District 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 6% 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 District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. For the year ended August 31, 2015, employees contributed \$132,936, or 6.00% of annual pay, and the District contributed \$105,356, or 5.06 % of annual pay, to the Plan.

Net Pension Asset

The District's net pension asset as of August 31, 2015, was measured as of December 31, 2014, and the total pension liability used to calculate the net pension asset was determined by an actuarial valuation as of that date.

The total pension liability in the December 31, 2014, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.0%
Salary increases	3.5%
Ad hoc cost of living adjustments	Not included
Investment rate of return	8.1%, net of investment expenses

Mortality rates for depositing members were based on the RP-2000 Active Employee Mortality Table with a four-year setback for females and a two-year set-forward for males, as appropriate, with adjustments for mortality improvements based on the projection scale AA.

Maverick County Hospital District
Notes to Financial Statements
August 31, 2015 and 2014

The actuarial assumptions used in the December 31, 2014, valuation were based on the results of an actuarial experience study for the period January 1, 2009, through December 31, 2012. The long-term expected rate of return on pension plan investments was based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information. The target allocation and best estimates of rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-Term Expected Geometric Real Rate of Return
Equities		
U.S. Equities	16.5%	5.4%
International Equities — Developed	11%	5.4%
International Equities — Emerging	9%	6.4%
Global Equities	1.5%	5.7%
Hedge Funds	25%	5.2%
High-Yield Investments		
High-Yield Bonds	3%	3.8%
Opportunistic Credit	5%	5.5%
Distressed Debt	3%	6.8%
Direct Lending	2%	5.8%
Private Equity	12%	8.4%
Real Assets		
REITs	2%	4.0%
Commodities	2%	-0.2%
Private Real Estate Partnerships	3%	7.2%
Master Limited Partnerships	2%	5.3%
Investment-Grade Bonds	3%	0.6%
Total	100%	

Discount Rate

The discount rate used to measure the total pension liability was 8.1% at December 31, 2014. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that District 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.

Maverick County Hospital District
Notes to Financial Statements
August 31, 2015 and 2014

Changes in the total pension liability, plan fiduciary net position and the net pension asset for the year end August 31, 2015, are:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at beginning of year	\$ 2,118,743	\$ 3,025,944	\$ (907,201)
Changes for the year:			
Service cost	332,561	-	332,561
Interest on total pension liability	182,393	-	182,393
Effect of economic/demographic gains or losses	(6,419)		(6,419)
Refund of contributions	(45,766)	(45,766)	-
Benefit payments	(15,456)	(15,456)	-
Administrative expenses	-	(2,482)	2,482
Member contributions	-	134,761	(134,761)
Net investment income	-	197,186	(197,186)
Employer contributions	-	88,493	(88,493)
Other changes	-	11,935	(11,935)
Net changes	447,313	368,671	78,642
Balances at end of year	\$ 2,566,056	\$ 3,394,615	\$ (828,559)

The net pension liability has been calculated using a discount rate of 8.1%. The following table presents the net pension (asset) liability of the District using a discount rate 1% higher and 1% lower than the current rate:

	1% Decrease 7.1%	Current Discount Rate 8.1%	1% Increase 9.1%
District's net pension (asset) liability	\$ (490,099)	\$ (828,559)	\$ (1,105,937)

Maverick County Hospital District
Notes to Financial Statements
August 31, 2015 and 2014

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended August 31, 2015, the District recognized pension expense of approximately \$122,000. At August 31, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	2015	
	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference between expected and actual experience	\$ -	\$ 5,502
Net difference between projected and actual earnings on plan investments	45,767	-
Contributions subsequent to the measurement date	85,114	-
	\$ 130,881	\$ 5,502

At August 31, 2015, the District reported \$85,114 as deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date that will be recognized as an increase of the net pension asset at August 31, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources at August 31, 2015, related to pensions will be recognized in pension expense as follows:

Year ending August 31:

2016	\$ 10,525
2017	10,525
2018	10,525
2019	10,525
Thereafter	(1,835)
	\$ 40,265

Funding Status and Funding Progress

Prior to adoption of GASB 68, and as of December 31, 2013, the plan was 125% 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 the OAAL to the covered payroll was -24.9% for the year ended December 31, 2013.

Maverick County Hospital District
Notes to Financial Statements
August 31, 2015 and 2014

Annual Pension Cost

For the year ended August 31, 2014, the District's APC was approximately \$117,000. The required contributions for 2014 were determined based on the results of actuarial valuations as of December 31, 2013, using the entry age actuarial cost method. At August 31, 2014, the actuarial assumptions included (a) 8.0% investment rate of return (net of administrative expenses) and (b) projected salary increase of 4.9% per year. At August 31, 2014, both (a) and (b) included an inflation component of 3.0%. The actuarial value of assets was determined using techniques that spread the effects 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 payroll on a closed basis. The remaining amortization period at December 31, 2013, is 20 years.

Three-Year Trend Information

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
August 31, 2014	\$ 117,740	100.00%	\$ -
August 31, 2013	\$ 178,985	100.00%	\$ -
August 31, 2012	\$ 156,548	100.00%	\$ -

Pension Plan Fiduciary Net Position

Detailed information about the Plan's fiduciary net position is available in the separately issued financial report of TCDRS for the year ended December 31, 2014.

Note 8: 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 the District's self-insurance program or by commercial insurance; for example, 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.

Required Supplementary Information

Maverick County Hospital District
Schedule of Changes in the District's Net Pension Asset and Related Ratios

	2015
Total pension liability	
Service cost	\$ 332,561
Interest on total pension liability	182,393
Effect of plan changes	-
Effect of assumption changes or inputs	-
Effect of economic and demographic (gains) or losses	(6,419)
Benefit payments, including refunds of employee contributions	(61,222)
Net change in total pension liability	447,313
Total pension liability—beginning	2,118,743
Total pension liability—ending (a)	\$ 2,566,056
Plan fiduciary net position	
Contributions—employer	\$ 88,493
Contributions—employee	134,761
Net investment income	197,186
Benefit payments, including refunds of employee contributions	(61,222)
Administrative expense	(2,482)
Other	11,935
Net change in plan fiduciary net position	368,671
Plan fiduciary net position—beginning	3,025,944
Plan fiduciary net position—ending (b)	\$ 3,394,615
District's net pension (asset) liability—ending (a) – (b)	\$ (828,559)

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available. Information presented in this schedule has been determined as of the measurement date (December 31) of the net pension liability in accordance with GASB 68.

Maverick County Hospital District Schedule of District Contributions

Year Ending August 31,	Actuarially determined contribution	Contributions in relation to the actuarially determined contribution	Contribution deficiency (excess)	Covered- employee payroll (1)	Contributions as a percentage of covered-employee payroll
2015	\$ 105,356	\$ 105,356	-	\$ 2,465,973	4.3%

Notes to Schedule:

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

Valuation date:

Actuarially determined contribution rates are calculated as of 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 cost
Amortization method	Closed
Remaining amortization period	20 years
Asset valuation method	5-year smoothed non-asymptotic market
Inflation	3%
Salary increases	3.5%
Investment rate of return	8.1%, net of pension plan investment expense, including inflation
Retirement age	60
Mortality	RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both with the projection scale AA.

This schedule is presented to illustrate the requirement to show information for 10 years. However, until a full 10-year trend is compiled, the District will present information for those years for which information is available. Information presented in this schedule has been determined as of the District's fiscal year end (August 31) in accordance with GASB 68.

Maverick County Hospital District
Schedule of Funding Progress – Pension Plan
August 31, 2014

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