Memorial Medical Center
A Component Unit of Calhoun County, Texas

Independent Auditor's Report and Financial Statements

December 31, 2014 and 2013

BKD LLP
CPAs & Advisors

Memorial Medical Center
A Component Unit of Calhoun County, Texas
December 31, 2014 and 2013

Contents

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Independent Auditor's Report

Board of Managers
Memorial Medical Center
Port Lavaca, Texas

We have audited the accompanying balance sheets of Memorial Medical Center, a component unit of Calhoun County, Texas, as of December 31, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Memorial Medical Center's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the 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 Memorial Medical Center as of December 31, 2014 and 2013, and changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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

Houston, Texas
July 9, 2015

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Management's Discussion and Analysis
December 31, 2014 and 2013

Introduction

This management's discussion and analysis of the financial performance of Memorial Medical Center (the Medical Center) provides an overview of the Medical Center's financial activities for the years ended December 31, 2014 and 2013. It should be read in conjunction with the accompanying financial statements of the Medical Center. Unless otherwise indicated, amounts are rounded to the nearest thousand.

Financial Highlights

- Cash and investments increased in 2014 by $294,000, or 7 percent, and increased in 2013 by $1,440,000, or 47 percent.
- The Medical Center's net position increased in 2014 by $1,715,000, or 20 percent, and increased in 2013 by $810,000, or 10 percent.
- The Medical Center reported operating income in 2014 of $243,000 and in 2013 of $4,000. The operating income in 2014 increased by $239,000, or 6,025 percent, from the operating income reported in 2013. The operating income in 2013 decreased by $145,000, or 97 percent, from the operating income reported in 2012.
- Net nonoperating revenues increased by $346,000 in 2014 compared to 2013, and decreased by $899,000 in 2013 compared to 2012.

Using This Annual Report

The Medical Center'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 Medical Center, including resources held by the Medical Center but restricted for specific purposes by creditors, contributors, grantors or enabling legislation. The Medical Center 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 Medical Center's finances is "Is the Medical Center 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 Medical Center'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 Medical Center's net position and changes in it. The Medical Center's total net position—the difference between assets and liabilities—is one measure of the Medical Center's financial health or financial position. Over time, increases or decreases in the Medical Center's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Medical Center'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 Medical Center.

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 Medical Center's Net Position

The Medical Center's net position is the difference between its assets and liabilities reported in the balance sheets. The Medical Center's net position increased by $1,715,000, or 20 percent, in 2014 and increased by $810,000, or 10 percent, in 2013, as shown in Table 1.

Table 1: Assets, Liabilities and Net Position

	2014	2013	2012
Assets			
Patient accounts receivable, net	$ 2,459,647	$ 2,431,028	$ 2,603,731
Other current assets	8,281,535	7,340,299	6,015,714
Capital assets, net	4,414,658	4,054,496	3,816,551
Total assets	$ 15,155,840	$ 13,825,823	$ 12,435,996
Liabilities and Net Position			
Liabilities			
Current liabilities	$ 4,355,861	$ 4,902,791	$ 4,028,468
Long-term Debt	372,558	210,905	505,724
Total liabilities	4,728,419	5,113,696	4,534,192
Net Position			
Net investment in capital assets	3,789,546	3,548,772	3,025,253
Restricted-expendable for equipment	321,870	1,818	24,500
Unrestricted	6,316,005	5,161,537	4,852,051
Total net position	10,427,421	8,712,127	7,901,804
Total liabilities and net position	$ 15,155,840	$ 13,825,823	$ 12,435,996

The most significant changes in the Medical Center's financial position during 2014 were an increase in receivables from the Medicaid Section 1115(a) demonstration of $873,000 and a decrease in accrued expenses by $1,243,000 for intergovernmental transfer payments (IGTs) to support the private Upper Payment Limit (UPL) program.

The most significant changes in the Medical Center's financial position during 2013 were a net increase in cash of $1,440,000 and an increase in accrued expenses of $780,000 for IGTs to support the private UPL program.

Operating Results and Changes in the Medical Center's Net Position

In 2014, the Medical Center's net position increased by $1,715,000, or 20 percent, as shown in Table 2. Total operating revenues increased primarily due to an increase in patient revenues. Total operating expenses increased primarily due to an increase in salaries, wages and employee benefits. The Medical Center's change in net position increased by $810,000 in 2013 and $1,877,000 in 2012, a decrease of 57 percent in 2013.

Table 2: Operating Results and Changes in Net Position

	2014	2013	2012
Operating Revenues			
Net patient service revenue	$ 22,098,328	$ 21,005,902	$ 20,202,316
Other	642,487	735,074	555,508
Total operating revenues	22,740,815	21,740,976	20,757,824
Operating Expenses			
Salaries, wages and employee benefits	11,552,102	10,731,808	10,321,039
Purchased services and professional fees	5,008,624	5,371,435	4,788,952
Depreciation and amortization	964,776	952,347	1,015,970
Other	4,972,689	4,681,425	4,482,498
Total operating expenses	22,498,191	21,737,015	20,608,459
Operating Income	242,624	3,961	149,365
Nonoperating Revenues (Expenses)			
Noncapital grants and contributions	7,840	82,586	14,301
Investment income	1,234	6,218	3,514
Interest expense	(29,580)	(21,542)	(28,057)
Other	1,171,306	737,282	1,713,452
Total nonoperating revenues	1,150,800	804,544	1,703,210
Grants for Property and Equipment	321,870	1,818	24,500
Increase in Net Position	$ 1,715,294	$ 810,323	$ 1,877,075

Operating Income or Losses

The first component of the overall change in the Medical Center's net position is its operating income or loss—generally, the difference between net patient service and other operating revenues and the expenses incurred to perform those services. The Medical Center reported operating income in both 2014 and 2013. The Medical Center was formed and is operated primarily to serve residents of Calhoun County and the surrounding area.

The operating income for 2014 increased by $239,000, or 6,025 percent, as compared to 2013. The primary component of the increase in the operating income is a decrease in purchased services and professional fees. Net operating revenues for 2014 increased by $1,000,000, or 5 percent, which was primarily due to an increase in net patient service revenue during 2014.

The operating income for 2013 decreased by $145,000, or 97 percent, as compared to 2012. The primary component of the decrease in operating income is the increase in expenses, most notably purchased services and professional fees. Net operating revenues for 2013 increased by $983,000, or 5 percent, which was primarily due to an increase in net patient service revenue during 2013.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of noncapital grants and contributions to the Medical Center, investment income, interest expense, private UPL expense and on-behalf of payments. The Medical Center recognized private UPL expense of $1,210,000 and on-behalf of payments of $2,381,000 during 2014. The Medical Center recognized private UPL expense of $2,280,000 and on-behalf of payments of $3,017,000 during 2013. Between 2014 and 2013, private UPL expense decreased by $1,070,000 and on-behalf of payments decreased by $636,000.

The Medical Center's Cash Flows

During 2014, cash provided by operating activities decreased by $696,000 over 2013, primarily due to an increase in the amount of payments to suppliers and contractors. Cash used in noncapital financing activities increased by $1,027,000 over 2013, due to increased private UPL program payments. Cash used in capital and related financing activities decreased by $582,000 due to a decrease in cash spending for capital equipment. Cash provided by investing activities remained consistent with 2013.

During 2013, cash provided by operating activities increased by $2,629,000 over 2012, primarily due to an increase in the amount of cash collected from and on-behalf of patients. Cash used in noncapital financing activities increased by $1,242,000 over 2012, due to increased private UPL program payments. Cash used in capital and related financing activities increased by $1,046,000 due to increased purchase of capital assets. Cash provided by investing activities remained consistent with 2012.

Capital Asset and Debt Administration

Capital Assets

At the end of 2014 and 2013, the Medical Center had $4,415,000 and $4,054,000, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements.

Debt

At December 31, 2014, the Medical Center had $625,000 in capital lease obligations outstanding. During 2014, the Medical Center entered into new capital lease obligations in the amount of $468,000 and made scheduled capital lease payments.

At December 31, 2013, the Medical Center had $506,000 in capital lease obligations outstanding. During 2013, the Medical Center made scheduled capital lease payments.

Contacting the Medical Center's Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Medical Center's finances and to show the Medical Center's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Medical Center's management at Memorial Medical Center, 815 N. Virginia, Port Lavaca, Texas 77979.

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Balance Sheets
December 31, 2014 and 2013

Assets

	2014	2013
Current Assets		
Cash	$ 4,275,602	$ 3,981,580
Short-term investments	500,000	500,000
Patient accounts receivable, net of allowance; 2014 - $3,865,000, 2013 - $3,423,000	2,459,647	2,431,028
Estimated amounts due from third-party payers	-	226,103
Supplies	706,379	630,832
Prepaid expenses and other	2,799,554	2,001,784
Total current assets	10,741,182	9,771,327
Capital Assets, Net	4,414,658	4,054,496
Total assets	$ 15,155,840	$ 13,825,823

Liabilities and Net Position

	2014	2013
Current Liabilities		
Current maturities of long-term debt	$ 252,554	$ 294,819
Notes payable	500,000	500,000
Accounts payable	696,897	820,065
Accrued expenses	2,468,376	3,287,907
Estimated amounts due to third-party payers	438,034	-
Total current liabilities	4,355,861	4,902,791
Long-term Debt	372,558	210,905
Total liabilities	4,728,419	5,113,696
Net Position		
Net investment in capital assets	3,789,546	3,548,772
Restricted-expendable for equipment	321,870	1,818
Unrestricted	6,316,005	5,161,537
Total net position	10,427,421	8,712,127
Total liabilities and net position	$ 15,155,840	$ 13,825,823

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2014 and 2013

	2014	2013
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2014 - $9,419,000, 2013 - $8,616,000	$ 22,098,328	$ 21,005,902
Other	642,487	735,074
Total operating revenues	22,740,815	21,740,976
Operating Expenses		
Salaries and wages	8,732,811	8,187,342
Employee benefits	2,819,291	2,544,466
Purchased services and professional fees	5,008,624	5,371,435
Insurance	48,829	50,174
Supplies and other	4,923,860	4,631,251
Depreciation and amortization	964,776	952,347
Total operating expenses	22,498,191	21,737,015
Operating Income	242,624	3,961
Nonoperating Revenues (Expenses)		
Noncapital grants and contributions	7,840	82,586
Investment income	1,234	6,218
Interest expense	(29,580)	(21,542)
Private Upper Payment Limit expense	(1,209,604)	(2,280,000)
On-behalf of payments	2,380,910	3,017,282
Total nonoperating revenues	1,150,800	804,544
Excess of Revenues Over Expenses Before Grants for Property and Equipment	1,393,424	808,505
Grants for Property and Equipment	321,870	1,818
Increase in Net Position	1,715,294	810,323
Net Position, Beginning of Year	8,712,127	7,901,804
Net Position, End of Year	$ 10,427,421	$ 8,712,127

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Statements of Cash Flows
Years Ended December 31, 2014 and 2013

	2014	2013
Operating Activities		
Receipts from and on-behalf of patients	$ 23,873,416	$ 22,104,881
Payments to suppliers and contractors	(9,383,000)	(7,797,506)
Payments to employees	(11,482,187)	(10,695,317)
Other receipts, net	642,487	735,074
Net cash provided by operating activities	3,650,716	4,347,132
Noncapital Financing Activities		
Noncapital grants and contributions	7,840	82,586
Private Upper Payment Limit program payments	(2,452,508)	(1,500,355)
Net cash used in noncapital financing activities	(2,444,668)	(1,417,769)
Capital and Related Financing Activities		
Grants for property and equipment	321,870	1,818
Principal paid on long-term debt	(348,309)	(285,574)
Interest paid on long-term debt	(29,580)	(21,542)
Purchase of capital assets	(857,241)	(1,190,292)
Net cash used in capital and related financing activities	(913,260)	(1,495,590)
Investing Activity		
Interest on investments	1,234	6,218
Net cash provided by investing activity	1,234	6,218
Increase in Cash	294,022	1,439,991
Cash, Beginning of Year	3,981,580	2,541,589
Cash, End of Year	$ 4,275,602	$ 3,981,580

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Statements of Cash Flows (Continued)
Years Ended December 31, 2014 and 2013

	2014	2013
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income	$ 242,624	$ 3,961
Depreciation and amortization	964,776	952,347
Provision for uncollectible accounts	9,419,000	8,616,000
On-behalf of payments	2,380,910	3,017,282
Changes in operating assets and liabilities:		
Patients accounts receivable, net	(9,447,619)	(8,443,297)
Estimated amounts due from and to third-party payers	664,137	151,133
Accounts payable and accrued expenses	300,205	85,433
Supplies and other current assets	(873,317)	(35,727)
Net cash provided by operating activities	$ 3,650,716	$ 4,347,132
Supplemental Cash Flows Information		
Capital lease obligation incurred for capital assets	$ 467,697	$ -

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

Nature of Operations and Reporting Entity

Memorial Medical Center (the Medical Center) is an acute care critical access hospital (CAH) located in Port Lavaca, Texas. The Medical Center is a component unit of Calhoun County (the County) and the Board of County Commissioners appoints members to the Board of Managers (the Board) of the Medical Center. The Medical Center primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the County's area.

Basis of Accounting and Presentation

The financial statements of the Medical Center 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 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, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Medical Center 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.

Risk Management

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

The Medical Center is self-insured for a portion of its exposure to risk of loss from employee health claims. Annual estimated provisions are accrued for the self-insured portion of employee health claims and include an estimate of the ultimate costs for both reported claims and claims incurred but not yet reported.

Investments and Investment Income

Investments in certificates of deposit are carried at amortized cost. Investment income consists of interest income.

Patient Accounts Receivable

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

Supplies

Supply inventories are stated at the lower of cost, determined using the first-in, first-out method, or market.

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. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term, or their respective estimated useful lives. The following estimated useful lives are being used by the Medical Center.

Land improvements	25-40 years
Buildings and leasehold improvements	25-40 years
Equipment	5-20 years

Compensated Absences

The Medical Center policies permit most employees to accumulate vacation 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 are earned whether the employee is expected to realize the benefit as time off or in cash. 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. These amounts are included in accrued expenses on the balance sheets.

Net Position

Net position of the Medical Center is classified in three 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. Restricted-expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Medical Center. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted-expendable net position.

Net Patient Service Revenue

The Medical Center has agreements with third-party payers that provide for payments to the Medical Center at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes 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.

Grants and Contributions

From time to time, the Medical Center receives grants and contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements, are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts used specifically for operations have been reported in other operating revenue. Amounts restricted to capital acquisitions are reported after nonoperating revenues and expenses.

Charity Care

The Medical Center provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue.

Electronic Health Records (EHR) Incentive Program

The EHR Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified EHR technology. CAHs are eligible to receive incentive payments in the cost reporting period beginning in the federal fiscal year in which meaningful use criteria have been met. The Medicare incentive payment is for qualifying costs of the purchase of certified EHR technology multiplied by the Medical Center's Medicare share fraction, which includes a 20 percent incentive. This payment is an acceleration of amounts that would have been received in future periods based on reimbursable costs incurred, including depreciation. If meaningful use criteria are not met in future periods, the Medical Center is subject to penalties that would reduce future payments for services. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Medical Center has recognized the incentive payment revenue received for qualified EHR technology expenditures during 2014, which was the period during which management was reasonably assured meaningful use was achieved and the earnings process was complete for year three. Management believes the incentive payments reflect a change in how "allowable costs" are determined in paying CAHs for providing to Medicare beneficiaries. For the years ended December 31, 2014 and 2013, the Medical Center recorded revenues of approximately $179,000 and $104,000, respectively, which is included in other revenues in the accompanying statements of revenues, expenses and changes in net position.

Income Taxes

As an essential government function of the County, the Medical Center 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 Medical Center is subject to federal income tax on any unrelated business taxable income.

Reclassifications

Certain reclassifications have been made to the 2013 financial statements to conform to the 2014 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue

The Medical Center has agreements with third-party payers that provide for payments to the Medical Center at amounts different from its established rates. These payment arrangements include those shown on the following page.

Medicare. Inpatient acute care services and substantially all outpatient services rendered to Medicare program beneficiaries are paid based on a cost reimbursement methodology. The Medical Center is reimbursed for certain services at tentative rates, with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicare administrative contractor.

Medicaid. Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed under a cost reimbursement methodology. The Medical Center is reimbursed for cost reimbursable services at tentative rates, with final settlement determined after submission of annual cost reports by the Medical Center and audits thereof by the Medicaid administrative contractor.

Approximately 56 percent and 57 percent of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2014 and 2013, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

On December 12, 2011, the United States Department of Health & Human Services approved a Medicaid Section 1115(a) demonstration entitled "Texas Health Transformation and Quality Improvement Program." This demonstration will expand existing Medicaid managed care programs and establish two funding pools that will assist providers with uncompensated care costs and promote health system transformation. The demonstration is effective from December 12, 2011 to September 30, 2016, and will have a material impact on the Medical Center's future Medicaid funding. The funding received through this demonstration will impact the funding the Medical Center has historically received under the Texas Medicaid Disproportionate Share program and will replace the funding historically received through the UPL program, both designed to assist those facilities serving the majority of the indigent patients by providing funds supporting increased access to health care within the community. Total funding received through the Texas Medicaid supplemental funding programs was approximately $2,304,000 and $1,788,000 for the years ended December 31, 2014 and 2013, respectively.

The Medical Center has elected to fund certain elements of the State of Texas' private UPL program. During the years ended December 31, 2014 and 2013, the Medical Center recognized funding of approximately $1,210,000 and $2,280,000, respectively.

The Medical Center has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Medical Center under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Note 3: 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 Medical Center is included in the County's deposit policy for custodial credit risk which 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 or 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.

At December 31, 2014 and 2013, the Medical Center's bank balances were insured or collateralized by assets held in other than the Medical Center's name.

Summary of Carrying Values

The carrying values of deposits are included in the balance sheets as follows:

	2014	2013
Carrying value:		
Deposits	$ 4,775,602	$ 4,481,580

Included in the following balance sheets captions:

	2014	2013
Cash	$ 4,275,602	$ 3,981,580
Short-term investments	500,000	500,000
	$ 4,775,602	$ 4,481,580

Note 4: Patient Accounts Receivable

The Medical Center grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. The table on the following page shows patient accounts receivable at December 31.

	2014	2013
Medicare	$ 945,635	$ 979,281
Medicaid	395,503	419,464
Other third-party payers	1,213,934	1,112,930
Patients	3,769,575	3,342,353
	6,324,647	5,854,028
Less allowance for uncollectible accounts	3,865,000	3,423,000
	$ 2,459,647	$ 2,431,028

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2014				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets:					
Land	$ 320,593	$ -	$ -	$ -	$ 320,593
Buildings and improvements	9,409,247	120,236	-	-	9,529,483
Equipment	12,301,614	396,637	-	-	12,698,251
Leased assets	1,652,700	467,697	-	-	2,120,397
Construction in progress	12,700	340,368	-	-	353,068
Total capital assets	23,696,854	1,324,938	0	0	25,021,792
Less accumulated depreciation:					
Buildings and improvements	(7,849,715)	(140,010)	-	-	(7,989,725)
Equipment	(10,595,433)	(480,917)	-	-	(11,076,350)
Leased assets	(1,197,210)	(343,849)	-	-	(1,541,059)
Total accumulated depreciation	(19,642,358)	(964,776)	0	0	(20,607,134)
Capital assets, net	$ 4,054,496	$ 360,162	$ 0	$ 0	$ 4,414,658

	2013				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets:					
Land	$ 32,143	$ 288,450	$ -	$ -	$ 320,593
Buildings and improvements	9,229,238	180,009	-	-	9,409,247
Equipment	11,595,987	711,474	5,847	-	12,301,614
Leased assets	1,652,700	-	-	-	1,652,700
Construction in progress	-	12,700	-	-	12,700
Total capital assets	22,510,068	1,192,633	5,847	0	23,696,854
Less accumulated depreciation:					
Buildings and improvements	(7,677,933)	(171,782)	-	-	(7,849,715)
Equipment	(10,099,081)	(499,858)	(3,506)	-	(10,595,433)
Leased assets	(916,503)	(280,707)	-	-	(1,197,210)
Total accumulated depreciation	(18,693,517)	(952,347)	(3,506)	0	(19,642,358)
Capital assets, net	$ 3,816,551	$ 240,286	$ 2,341	$ 0	$ 4,054,496

Note 6: Notes Payable

The following is a summary of notes payable transactions for the Medical Center for the years ended December 31:

	Beginning Balance	Additions	Deductions	Ending Balance
Notes payable:				
Noninterest-bearing note - 2014	$ 500,000	$ 0	$ 0	$ 500,000
Noninterest-bearing note - 2013	$ 500,000	$ 0	$ 0	$ 500,000

The Medical Center has one noninterest bearing line of credit with the County in the amount of $2,000,000. As of December 31, 2014, only $500,000 had been drawn on this line of credit.

Note 7: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31 consisted of:

	2014	2013
Payable to suppliers and contractors	$ 596,277	$ 668,922
Payable to employees (including payroll taxes and benefits)	1,241,079	1,171,164
Other	1,327,917	2,267,886
	$ 3,165,273	$ 4,107,972

Note 8: Medical Malpractice Claims

The Medical Center is a unit of government covered by the *Texas Tort Claims Act*, which, by statute, limits its liability to $100,000 per individual and $300,000 in the aggregate. These limits coincide with the malpractice insurance coverage, which is purchased by the Medical Center under a claims-made 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 Medical Center's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 9: Employee Health Claims

Substantially all of the Medical Center's employees and their dependents are eligible to participate in the Medical Center's employee health insurance plan. The Medical Center is self-insured for health claims of participating employees and dependents up to an annual aggregate amount of $60,000. Commercial stop-loss insurance coverage is purchased for claims in excess of the aggregate annual amount. A provision is accrued for self-insured employee health claims, including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims, and other economic and social factors. It is reasonably possible that the Medical Center's estimate could change by a material amount in the near term.

Activity in the Medical Center's accrued employee health claims liability during 2014 and 2013, which is included in accrued expenses in the accompanying balance sheets, is summarized as follows:

	2014	2013
Balance, beginning of year	$ 269,054	$ 267,869
Current year claims incurred and changes in estimates for claims incurred in prior years	1,243,415	1,127,249
Claims and expenses paid	(1,304,415)	(1,126,064)
Balance, end of year	$ 208,054	$ 269,054

Note 10: Long-term Obligations

The following is a summary of long-term obligation transactions for the Medical Center for the years ended December 31:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term obligations:					
Capital lease obligations - 2014	$ 505,724	$ 467,697	$ (348,309)	$ 625,112	$ 252,554
Capital lease obligations - 2013	$ 791,298	$ 0	$ (285,574)	$ 505,724	$ 294,819

Capital Lease Obligations

The Medical Center is obligated under leases for equipment that are accounted for as capital leases. Assets under capital leases at December 31, 2014 and 2013, totaled $2,120,397 and $455,490, respectively, net of accumulated depreciation of $1,547,059 and $1,197,210, respectively. The following is a schedule, by year, of future minimum lease payments under capital leases, including interest at rates of 2.98 percent to 9.80 percent, together with the present value of the future minimum lease payments as of December 31, 2014.

Years Ending December 31,	Total to be Paid	Principal	Interest
2015	$ 281,418	$ 252,554	$ 28,864
2016	145,287	124,857	20,430
2017	119,087	105,980	13,107
2018	109,797	103,226	6,571
2019	39,311	38,495	816
	$ 694,900	$ 625,112	$ 69,788

Note 11: Charity Care

The costs of charity care provided under the Medical Center's charity care policy were approximately $568,000 and $540,000 for 2014 and 2013, respectively. The cost of charity care is estimated by applying the ratio of cost to gross charges to the gross uncompensated charges.

Note 12: Pension Plan

Plan Description

The Medical Center provides retirement, disability and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan (the plan) in the state-wide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the state-wide agent, multiple-employer public employee retirement system consisting of over 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 30 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.

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 Medical Center within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the Medical Center's commitment to contribute. 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 Act.

Funding Policy

The Medical Center 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 contribution rate of the Medical Center is actuarially determined annually. It was 8.22 percent and 7.77 percent for calendar years 2014 and 2013, respectively. The contribution rate payable by the employee members is 7.00 percent, as adopted by the governing body of the Medical Center. The employee contribution rate and the employer contribution rate may be changed by the governing body of the Medical Center within the options available in the TCDRS Act.

Annual Pension Cost (APC)

For the Medical Center's year ended December 31, 2014, the APC for the TCDRS plan for its employees was $708,827, and the actual contributions were $708,827. For the Medical Center's year ended December 31, 2013, the APC for the TCDRS plan for its employees was $633,060, and the actual contributions were $633,060. There is no existing net pension obligation.

The required contributions for 2014 and 2013 were determined based on the results of actuarial valuations as of December 31, 2013 and 2012, using the entry age normal actuarial cost method. The actuarial assumptions included (a) an 8.0 percent investment rate of return (net of administrative expenses) and (b) projected salary increase of 4.9 percent and 5.4 percent for 2014 and 2013, respectively. Both (a) and (b) included an inflation component of 3.0 percent for both 2014 and 2013 value method. The actuarial valuation of plan assets was determined using a ten-year smoothed value and a fund value. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at both December 31, 2014 and 2013, was 20 years.

Three-year Trend Information

Fiscal Year Ended	APC	Percentage of APC Contributed	Net Pension Obligation
12/31/12	$ 590,398	100%	$ -
12/31/13	633,060	100%	-
12/31/14	708,827	100%	-

Funding Status and Funding Progress

As of December 31, 2013, the most recent actuarial valuation date, the plan was 92.35 percent funded. The actuarial accrued liability for benefits was $23,499,550, and the actuarial value of assets was $21,700,727, resulting in an unfunded actuarial accrued liability of $1,798,823. The covered payroll (annual payroll of active employees covered by the plan) was $8,147,521, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 22.08 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 for benefits.

Note 13: Related-party Transactions

The Medical Center collaborates with the Service Organization of Houston (the Service Organization), a nonprofit corporation, to access Medicaid supplemental payments through the State of Texas' private UPL program. The Medical Center has one representative who serves on the Board of Directors of the Service Organization. The Service Organization funded certain health care services on behalf of the Medical Center in the amounts of approximately $2,381,000 and $3,017,000 during the years ended December 31, 2014 and 2013, respectively. These on-behalf of payments are reflected as nonoperating revenues in the accompanying statements of revenues, expenses and changes in net position.

Note 14: Contingencies

Litigation

In the normal course of business, the Medical Center 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 Medical Center's commercial insurance; for example, allegations regarding employment practices or performance of contracts. The Medical Center 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.

Note 15: Patient Protection and Affordable Care Act

The *Patient Protection and Affordable Care Act* (PPACA) is substantially reforming the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation established health insurance exchanges, which provide individuals without employer-provided health care coverage the opportunity to purchase insurance. It is anticipated that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges. It is possible the reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, are being decreased. Each state's participation in an expanded Medicaid program is optional.

The State of Texas has indicated it will not expand the Medicaid program, which may result in revenues from newly covered individuals not offsetting the Medical Center's reduced revenue from other Medicare/Medicaid programs.

The PPACA is extremely complex. While the overall future impact of the PPACA cannot currently be estimated, it is possible it will have a negative impact on the Medical Center's net patient service revenue.

Note 16: Subsequent Event

In February 2015, the Medical Center entered into or committed to a series of lease and management agreements with five nursing facility operators that resulted in the Medical Center becoming the legal license holder and operator of these nursing homes. The lease agreements call for annual payments approximating $5,280,000, the payment of which will be solely made from the operations of the nursing homes. Under the terms of the management agreements, the third party managers will provide all services necessary to operate the facilities, including personnel and oversight of the actual operations. These managers will also provide all accounting functions for the facilities, including the billing and collection services. All patient revenue from the facilities will be paid to the Medical Center and recorded as such by the Medical Center. The Medical Center will transfer cash from these patient revenues to the managers so the managers can pay all facility related costs on behalf of the Medical Center. In addition, the Medical Center will utilize the nursing home cash receipts to pay a management fee to the manager pursuant to the agreements.

In September 2015, five of these facilities will begin participation in the Texas *Minimum Payment Amounts to Qualified Nursing Facilities Program*, which will allow these facilities to receive Medicare Part A reimbursement rates for their Medicaid residents. In order to receive this additional funding, the Medical Center will be required to make quarterly IGT payments to the State of Texas that are equal to approximately 42 percent of the additional expected reimbursement.

Required Supplementary Information

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Schedule of Funding Progress for Texas County and District Retirement System Retirement Plan
Year Ended December 31, 2014

Analysis of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Entry Age (b)	Ratio of Assets to AAL (a/b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Annual Covered Payroll (c)	UAAL as Percentage of Covered Payroll ((b-a)/c)
12/31/11	$ 18,787,462	$ 20,308,106	92.51%	$ 1,520,644	$ 7,868,071	19.33%
12/31/12	20,232,437	22,156,007	91.32%	1,923,570	7,914,094	24.31%
12/31/13	21,700,727	23,499,550	92.35%	1,798,823	8,147,521	22.08%