Memorial Medical Center
A Component Unit of Calhoun County, Texas

Independent Auditor's Report and Financial Statements

December 31, 2017 and 2016

BKD LLP
CPAs & Advisors

Memorial Medical Center
A Component Unit of Calhoun County, Texas
December 31, 2017 and 2016

Contents

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Independent Auditor's Report

Board of Managers
Memorial Medical Center
Port Lavaca, Texas

We have audited the accompanying financial statements of Memorial Medical Center, a component unit of Calhoun County, Texas, as of and for the years ended December 31, 2017 and 2016, and the related notes to the financial statements, which collectively comprise Memorial Medical Center's basic financial statements as listed in the table of contents.

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, 2017 and 2016, 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.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and pension information as 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 audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

Houston, Texas
July 30, 2018

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Management's Discussion and Analysis
December 31, 2017 and 2016

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, 2017 and 2016. 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 decreased in 2017 by $1,357,000, or 33 percent, and decreased in 2016 by $407,000, or 9 percent.
- The Medical Center's net position decreased in 2017 by $1,525,000, or 11 percent, and increased in 2016 by $971,000, or 7 percent.
- The Medical Center reported an operating loss in 2017 of $1,984,000 and in 2016 of $1,106,000. The operating loss in 2017 increased by $878,000, or 79 percent from the operating loss reported in 2016. The operating loss in 2016 increased by $552,000, or 100 percent, from the operating loss reported in 2015.
- Net nonoperating revenues decreased by $1,615,000 in 2017 compared to 2016, and increased by $1,405,000 in 2016 compared to 2015.

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 decreased by $1,525,000, or 11 percent, in 2017 and increased by $971,000, or 7 percent, in 2016, as shown in Table 1.

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

	2017	2016	2015
Assets and Deferred Outflows of Resources			
Assets			
Patient accounts receivable, net	$ 2,100,148	$ 2,256,216	$ 2,750,665
Nursing home resident receivable, net	7,835,431	4,820,988	5,210,126
Other current assets	8,563,337	10,727,260	11,951,362
Capital assets, net	7,207,942	7,010,054	7,705,679
Other assets	231,978	-	-
Total assets	25,938,836	24,814,518	27,617,832
Deferred Outflows of Resources	3,137,330	3,742,679	1,193,358
Total assets and deferred outflows of resources	$ 29,076,166	$ 28,557,197	$ 28,811,190
Liabilities, Deferred Inflows of Resources and Net Position			
Liabilities			
Current liabilities	$ 12,604,105	$ 11,330,936	$ 15,175,994
Long-term debt	929,155	275,744	477,254
Net pension liability	2,730,075	2,803,027	135,344
Total liabilities	16,263,335	14,409,707	15,788,592

	2017	2016	2015
Deferred Inflows of Resources	$ 344,267	$ 154,280	$ 0
Net Position			
Net investment in capital assets	5,914,446	6,532,800	6,433,047
Unrestricted	6,554,118	7,460,410	6,589,551
Total net position	12,468,564	13,993,210	13,022,598
Total liabilities, deferred inflows of resources and net position	$ 29,076,166	$ 28,557,197	$ 28,811,190

The most significant changes in the Medical Center's financial position during 2017 were an increase in nursing home resident receivables of $3,014,000, a decrease in other current assets of $2,164,000 and an increased in current liabilities of $1,273,000.

The most significant changes in the Medical Center's financial position during 2016 were an increase in deferred outflows of resources of $2,549,000, a net pension liability increase of $2,668,000, a decrease in notes payable of $1,907,000 and an increase in net position of $971,000.

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

In 2017, the Medical Center's net position decreased by $1,525,000, or 257 percent, as shown in Table 2. The Medical Center's net position increased by $971,000 in 2016, or 7 percent and increased by $1,834,000 in 2015, or 16 percent, excluding the effects of the adoption of the change in accounting principle related to the pension plan.

Table 2: Operating Results and Changes in Net Position

	2017	2016	2015
Operating Revenues			
Net patient service revenue	$ 24,526,362	$ 23,844,072	$ 22,128,203
Nursing home resident revenue	46,522,139	50,125,184	44,789,016
Other	772,710	539,467	658,550
Total operating revenues	71,821,211	74,508,723	67,575,769
Operating Expenses			
Salaries, wages and employee benefits	13,675,652	13,767,235	12,563,643
Purchased services and professional fees	7,574,982	7,286,015	5,790,273
Nursing home expenses	46,319,956	48,143,452	43,684,866
Depreciation and amortization	989,818	1,051,793	925,920
Other	5,244,960	5,365,742	5,164,219
Total operating expenses	73,805,368	75,614,237	68,128,921
Operating Loss	(1,984,157)	(1,105,514)	(553,152)

	2017	2016	2015
Nonoperating Revenues (Expenses)			
Noncapital grants and contributions	$ -	$ 7,696	$ -
Investment income	9,570	5,388	1,245
Interest expense	(27,800)	(35,729)	(43,727)
Other	455,741	2,074,771	689,158
Total nonoperating revenues	437,511	2,052,126	646,676
Grants for Property and Equipment	22,000	24,000	1,740,236
Increase (Decrease) in Net Position	$ (1,524,646)	$ 970,612	$ 1,833,760

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 an operating loss in 2017 and 2016. The Medical Center was formed and is operated primarily to serve residents of Calhoun County (the County) and the surrounding area, accepting all patients regardless of their ability to pay.

The operating loss for 2017 increased by approximately $878,000, or 79 percent, as compared to the operating loss in 2016. The primary component of the increase in the operating loss is a decrease in the operating income generated by nursing home activities from $1,982,000 during 2016 to $202,000 during 2017, a decrease of $1,780,000. Net operating revenues for 2017 decreased by $2,688,000, or 4 percent, which was primarily due to a decrease in nursing home resident revenue during 2017. Total operating expenses decreased by $1,809,000, or 2 percent, which was primarily due to a decrease in nursing home expenses during 2017.

The operating loss for 2016 increased by approximately $552,000, or 100 percent, as compared to the operating loss in 2015. The primary component of the increase in the operating loss is the impact resulting from a shift in payer mix creating an increase in the provision for uncollectible accounts of $680,000. Net operating revenues for 2016 increased by $6,933,000, or 10 percent, which was primarily due to an increase in nursing home resident revenue during 2016. Total operating expenses increased by $7,485,000, or 11 percent, which was primarily due to an increase in purchased services and professional fees due to the expanded operations of the Memorial Medical Center Clinic and an increase in nursing home expenses. Nursing home activities generated $1,982,000 of operating income during 2016.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of noncapital grants and contributions to the Medical Center, investment income, interest expense, private Upper Payment Limit (UPL) expense and on-behalf of payments. The Medical Center recognized private UPL expense of $0 and on-behalf of payments of $456,000 during 2017. The Medical Center recognized private UPL expense of $2,586,000 and on-behalf of payments of $4,661,000 during 2016. During 2017, the private UPL program was terminated resulting in a private UPL expense decrease of $2,586,000 and an on-behalf of payments decrease of $4,205,000.

The Medical Center's Cash Flows

During 2017, cash provided by operating activities decreased by $5,112,000 over 2016, primarily due to a decrease in the amount of receipts from and on-behalf of patients. Cash used in noncapital financing activities decreased by $3,902,000 over 2016, primarily due to no private UPL program payments. Cash used in capital and related financing activities decreased by $256,000 over 2016 due to a decrease in cash spending for capital equipment. Cash provided by investing activities remained consistent with 2016.

During 2016, cash provided by operating activities increased by $5,128,000 over 2015, primarily due to an increase in the amount of receipts from and on-behalf of patients. Cash provided by noncapital financing activities decreased by $6,579,000 over 2015, primarily due to payments on borrowings incurred to fund noncapital activities. Cash used in capital and related financing activities decreased by $1,239,000 over 2015 due to a decrease in cash spending for capital equipment. Cash provided by investing activities remained consistent with 2015.

Capital Asset and Debt Administration

Capital Assets

At the end of 2017 and 2016, the Medical Center had $7,208,000 and $7,010,000, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements.

Debt

At December 31, 2017, the Medical Center had $1,293,000 in capital lease obligations outstanding. During 2017, the Medical Center entered into three new capital lease obligations in the aggregate amount of $1,062,000 and made scheduled capital lease payments. During 2017, the Medical Center paid notes payable to the County in the amount of $1,475,000.

At December 31, 2016, the Medical Center had $477,000 in capital lease obligations outstanding. During 2016, the Medical Center paid notes payable to the County in the amount of $1,907,000.

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, 2017 and 2016

	2017	2016
Assets and Deferred Outflows of Resources		
Current Assets		
Cash	$ 2,311,946	$ 3,668,930
Short-term investments	500,000	500,000
Patient accounts receivable, net of allowance; 2017 - $5,099,000, 2016 - $5,052,000	2,100,148	2,256,216
Nursing home resident accounts receivable, net of allowance; 2017 - $1,216,000, 2016 - $828,000	7,835,431	4,820,988
Estimated amounts due from third-party payers	262,499	143,851
Supplies	670,519	780,989
Other receivables and prepaid expenses	4,818,373	5,633,490
Total current assets	18,498,916	17,804,464
Capital Assets, Net	7,207,942	7,010,054
Other Assets	231,978	-
Total assets	25,938,836	24,814,518
Deferred Outflows of Resources Related to Pension	3,137,330	3,742,679
Total assets and deferred outflows of resources	$ 29,076,166	$ 28,557,197

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Balance Sheets (Continued)
December 31, 2017 and 2016

	2017	2016
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of capital lease obligations	$ 364,341	$ 201,510
Notes payable	-	1,475,000
Accounts payable	1,483,220	1,054,656
Accounts payable - nursing homes	8,436,542	6,462,039
Accrued expenses	2,320,002	2,137,731
Total current liabilities	12,604,105	11,330,936
Capital Lease Obligations	929,155	275,744
Net Pension Liability	2,730,075	2,803,027
Total liabilities	16,263,335	14,409,707
Deferred Inflows of Resources Related to Pension	344,267	154,280
Net Position		
Net investment in capital assets	5,914,446	6,532,800
Unrestricted	6,554,118	7,460,410
Total net position	12,468,564	13,993,210
Total liabilities, deferred inflows of resources and net position	$ 29,076,166	$ 28,557,197

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2017 - $8,045,000, 2016 - $8,114,000	$ 24,526,362	$ 23,844,072
Nursing home resident revenue, net of provision for uncollectible accounts; 2017 - $716,000, 2016 - $500,000	46,522,139	50,125,184
Other	772,710	539,467
Total operating revenues	71,821,211	74,508,723
Operating Expenses		
Salaries and wages	9,854,025	10,292,416
Employee benefits	3,821,627	3,474,819
Purchased services and professional fees	7,574,982	7,286,015
Insurance	46,258	65,329
Supplies and other	5,198,702	5,300,413
Nursing home expenses	46,319,956	48,143,452
Depreciation and amortization	989,818	1,051,793
Total operating expenses	73,805,368	75,614,237
Operating Loss	(1,984,157)	(1,105,514)
Nonoperating Revenues (Expenses)		
Noncapital grants and contributions	-	7,696
Investment income	9,570	5,388
Interest expense	(27,800)	(35,729)
Private Upper Payment Limit expense	-	(2,586,035)
On-behalf of payments	455,741	4,660,806
Total nonoperating revenues	437,511	2,052,126
Excess (Deficiency) of Revenues Over Expenses Before Grants for Property and Equipment	(1,546,646)	946,612
Grants for Property and Equipment	22,000	24,000
Increase (Decrease) in Net Position	(1,524,646)	970,612
Net Position, Beginning of Year	13,993,210	13,022,598
Net Position, End of Year	$ 12,468,564	$ 13,993,210

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Statements of Cash Flows
Years Ended December 31, 2017 and 2016

	2017	2016
Operating Activities		
Receipts from and on-behalf of patients	$ 70,758,929	$ 78,096,636
Payments to suppliers and contractors	(59,329,760)	(59,159,846)
Payments to employees	(12,438,553)	(14,150,885)
Other receipts, net	1,495,094	812,109
Net cash provided by operating activities	485,710	5,598,014
Noncapital Financing Activities		
Noncapital grants and contributions	-	7,696
Private Upper Payment Limit program payments	-	(3,477,797)
Principal paid on notes payable	(1,475,000)	(1,906,759)
Net cash used in noncapital financing activities	(1,475,000)	(5,376,860)
Capital and Related Financing Activities		
Grants for property and equipment	22,000	24,000
Principal paid on capital lease obligations	(245,882)	(265,632)
Interest paid on capital lease obligations	(27,800)	(35,729)
Purchase of capital assets	(125,582)	(356,168)
Net cash used in capital and related financing activities	(377,264)	(633,529)
Investing Activity		
Interest on investments	9,570	5,388
Net cash provided by investing activity	9,570	5,388
Decrease in Cash	(1,356,984)	(406,987)
Cash, Beginning of Year	3,668,930	4,075,917
Cash, End of Year	$ 2,311,946	$ 3,668,930

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Statements of Cash Flows (Continued)
Years Ended December 31, 2017 and 2016

	2017	2016
Reconciliation of Operating Loss to Net Cash Provided by Operating Activities		
Operating loss	$ (1,984,157)	$ (1,105,514)
Depreciation and amortization	989,818	1,051,793
Provision for uncollectible accounts	8,761,000	8,263,000
On-behalf of payments	455,741	4,660,806
Changes in operating assets and liabilities:		
Patients accounts receivable, net	(11,619,375)	(7,379,413)
Estimated amounts due from and to third-party payers	(118,648)	(212,802)
Accounts payable and accrued expenses	2,585,338	(913,464)
Deferred outflows of resources - pensions	605,349	(2,549,321)
Deferred inflows of resources - pensions	189,987	154,280
Net pension liability	(72,952)	2,667,683
Other assets and liabilities	693,609	960,966
Net cash provided by operating activities	$ 485,710	$ 5,598,014
Noncash Capital and Financing Activities		
Capital lease obligation incurred for capital assets	$ 1,062,124	$ -

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Notes to Financial Statements
December 31, 2017 and 2016

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 and, beginning in 2015, providing care to nursing home residents.

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, 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, 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, deferred inflows and outflows of resources, 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 and nursing homes report 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 acquisition 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

Deferred Outflows of Resources

The Medical Center reports increases in net position that relate to future periods as deferred outflows of resources in a separate section of its balance sheets.

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.

Defined Benefit Pension Plan

The Medical Center participates in an agent multiple-employer defined benefit pension plan (the Plan) operated by the Texas County and District Retirement System (TCDRS). For purposes of measuring the net pension liability (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 Inflows of Resources

The Medical Center reports decreases in net position that relate to future periods as deferred inflows of resources in a separate section of its balance sheets.

Net Position

Net position of the Medical Center 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.

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.

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 2016 financial statements to conform to the 2017 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue and Nursing Home Revenue

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:

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 61 percent and 55 percent of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2017 and 2016, 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 expanded existing Medicaid managed care programs and established two funding pools that assist providers with uncompensated care costs and promote health system transformation and has a material impact on the Medical Center's Medicaid funding. The demonstration was originally effective from December 12, 2011 to September 30, 2016. An extension was executed to extend the demonstration to December 31, 2017. On December 21, 2017, an extension was executed to extend the demonstration through September 30, 2022. Total funding received through the Texas Medicaid supplemental funding programs was approximately $2,282,000 and $2,149,000 for the years ended December 31, 2017 and 2016, respectively.

Prior to 2017, the Medical Center elected to fund certain elements of the State of Texas' private Upper Payment Limit (UPL) program. During the year ended December 31, 2016, the Medical Center recognized funding of approximately $2,586,000 related to this program.

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.

Nursing Home Revenue

In February 2015 and April 2017, the Medical Center entered into a series of lease and management agreements with nursing facility operators that resulted in the Medical Center becoming the legal license holder and operator of a total of six nursing homes. The lease agreements call for annual payments approximating $6,134,000 and $5,280,000 as of December 31, 2017 and 2016, respectively, 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 provide all services necessary to operate the facilities, including personnel and oversight of the actual operations. These managers also provide all accounting functions for the facilities, including the billing and collection services. All patient revenue from the facilities is paid to the Medical Center and recorded as such by the Medical Center. The Medical Center transfers 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 utilizes the nursing home cash receipts to pay a management fee to the manager pursuant to the agreements.

The Medical Center participated in the Texas Minimum Payment Amounts to Qualified Nursing Facilities Program (MPAP) in 2016, which allowed these facilities to receive Medicare Part A reimbursement rates for their Medicaid residents. In order to receive this additional funding in 2016, the Medical Center is required to make quarterly Intergovernmental transfer (IGT) payments to the State of Texas that are equal to approximately 43 percent of the additional expected reimbursement. As of December 31, 2016, revenues recognized under this program were approximately $6,984,000, and expenses were $3,020,000, and are included in nursing home resident revenue and nursing home expenses, respectively.

In August 2016, CMS prohibited HHSC from continuing MPAP beyond the Texas fiscal year ended August 31, 2016. Amounts accrued but unpaid under the program for dates of service on or before August 31, 2016, were paid in full to providers and there was no additional revenue earned under MPAP for subsequent dates of service. However, HHSC developed a new program to replace MPAP that allows participating providers to receive additional reimbursement if they either reach a national benchmark level or they make quarterly improvements in up to four predetermined quality measures. HHSC received CMS approval for this quality program (Quality Improvement Payment Program) that began on September 1, 2017. At December 31, 2017, the Medical Center recorded prepaid expenses under the program of approximately $1,345,000, which represents the prepaid intergovernmental transfers the Medical Center is required to contribute in advance of receiving any gross proceeds. As of December 31, 2017, revenues recognized under this program, for dates of service for the period of September 1, 2017 through December 31, 2017, were approximately $1,205,000, and expenses were approximately $674,000 and are included in nursing home resident revenue and nursing home expenses, respectively.

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, 2017 and 2016, 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:

	2017	2016
Carrying value:		
Deposits	$ 2,811,946	$ 4,168,930

Included in the following balance sheet captions:

	2017	2016
Cash	$ 2,311,946	$ 3,668,930
Short-term investments	500,000	500,000
	$ 2,811,946	$ 4,168,930

Note 4: Patient and Nursing Home Resident 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. Patient accounts receivable at December 31, 2017 and 2016, consisted of:

	2017	2016
Medicare	$ 743,083	$ 845,678
Medicaid	432,743	517,097
Other third-party payers	1,439,257	873,423
Patients	4,584,065	5,072,018
	7,199,148	7,308,216
Less allowance for uncollectible accounts	5,099,000	5,052,000
	$ 2,100,148	$ 2,256,216

Nursing home resident accounts receivable at December 31, 2017 and 2016, consisted of:

	2017	2016
Medicare	$ 4,883,072	$ 2,873,104
Medicaid	1,542,893	792,039
Other third-party payers	993,229	668,536
Patients	1,632,237	1,315,309
	9,051,431	5,648,988
Less allowance for uncollectible accounts	1,216,000	828,000
	$ 7,835,431	$ 4,820,988

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2017 and 2016, was as follows.

	2017				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets:					
Land	$ 320,593	$ -	$ -	$ -	$ 320,593
Buildings and improvements	13,209,688	-	-	-	13,209,688
Equipment	13,486,223	125,582	-	-	13,611,805
Leased assets	2,578,397	1,062,124	-	-	3,640,521
Total capital assets	29,594,901	1,187,706	0	0	30,782,607
Less accumulated depreciation:					
Buildings and improvements	(8,476,426)	(337,175)	-	-	(8,813,601)
Equipment	(11,994,097)	(430,407)	-	-	(12,424,504)
Leased assets	(2,114,324)	(222,190)	-	-	(2,336,514)
Total accumulated depreciation	(22,584,847)	(989,772)	0	0	(23,574,619)
Capital assets, net	$ 7,010,054	$ 197,934	$ 0	$ 0	$ 7,207,988

	2016				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets:					
Land	$ 320,593	$ -	$ -	$ -	$ 320,593
Buildings and improvements	9,544,361	18,600	-	3,646,727	13,209,688
Equipment	12,912,338	267,378	-	306,507	13,486,223
Leased assets	2,578,397	-	-	-	2,578,397
Construction in progress	3,883,044	70,190	-	(3,953,234)	-
Total capital assets	29,238,733	356,168	0	0	29,594,901
Less accumulated depreciation:					
Buildings and improvements	(8,134,727)	(341,699)	-	-	(8,476,426)
Equipment	(11,552,259)	(441,838)	-	-	(11,994,097)
Leased assets	(1,846,068)	(268,256)	-	-	(2,114,324)
Total accumulated depreciation	(21,533,054)	(1,051,793)	0	0	(22,584,847)
Capital assets, net	$ 7,705,679	$ (695,625)	$ 0	$ 0	$ 7,010,054

Note 6: Notes Payable

The following is a summary of notes payable transactions for the Medical Center for the years ended December 31, 2017 and 2016:

	Beginning Balance	Additions	Deductions	Ending Balance
Notes payable:				
Noninterest-bearing note - 2017	$ 1,475,000	$ 0	$ (1,475,000)	$ 0
Noninterest-bearing note - 2016	$ 3,381,759	$ 0	$ (1,906,759)	$ 1,475,000

As of December 31, 2017, the Medical Center has a noninterest-bearing line of credit payable on demand with the County in the amount of $4,000,000. As of December 31, 2017, no amounts had been drawn on the line of credit.

As of December 31, 2016, the Medical Center had a noninterest bearing line of credit payable on demand with the County in the amount of $2,000,000 for the purpose of business improvements. As of December 31, 2016, $1,475,000 had been drawn on the line of credit.

Note 7: Accounts Payable and Accrued Expenses

Accounts payable and accrued expenses included in current liabilities at December 31, 2017 and 2016, consisted of:

	2017	2016
Payable to suppliers and contractors	$ 1,097,425	$ 617,430
Payable to employees (including payroll taxes and benefits)	1,070,882	1,011,229
Accrued IGT payments	1,249,120	1,126,502
Payable to nursing home management company	8,436,542	6,462,039
Other	385,795	437,226
	$ 12,239,764	$ 9,654,426

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, which are aggregated to meet a $100,000 deductible. 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 2017 and 2016, which is included in accrued expenses in the accompanying balance sheets, is summarized as follows:

	2017	2016
Balance, beginning of year	$ 158,000	$ 280,000
Current year claims incurred and changes in estimates for claims incurred in prior years	1,299,157	1,453,305
Claims and expenses paid	(1,172,268)	(1,575,305)
Balance, end of year	$ 284,889	$ 158,000

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, 2017 and 2016:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term obligations:					
Capital lease obligations - 2017	$ 477,254	$ 1,062,124	$ (245,882)	$ 1,293,496	$ 364,341
Capital lease obligations - 2016	$ 742,886	$ 0	$ (265,632)	$ 477,254	$ 201,510

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, 2017 and 2016, totaled $3,640,521 and $2,578,397, respectively, net of accumulated depreciation of $2,336,514 and $2,114,324, respectively. The following is a schedule, by year, of future minimum lease payments under capital leases, including interest at rates ranging from 2.98 percent to 9.80 percent, together with the present value of the future minimum lease payments as of December 31, 2017.

Year Ending December 31,	Total to be Paid	Principal	Interest
2018	$ 408,254	$ 364,341	$ 43,913
2019	272,360	243,448	28,912
2020	274,853	254,697	20,156
2021	234,257	222,476	11,781
2022	212,288	208,534	3,754
	$ 1,402,012	$ 1,293,496	$ 108,516

Note 11: Charity Care

The costs of charity care provided under the Medical Center's charity care policy were approximately $851,000 and $678,000 for 2017 and 2016, 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 or at tcdrs.org.

Benefits Provided

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.

The employees covered by the Plan at the December 31, 2016 and 2015, measurement date are as follows.

	2016	2015
Inactive employees or beneficiaries currently receiving benefits	98	91
Inactive employees entitled to but not yet receiving benefits	346	315
Active employees	246	250
	690	656

Contributions

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 7.0 percent of annual pay, or $793,282, and 7.62 percent of annual pay, or $783,931, for calendar years 2017 and 2016, respectively. The contribution rate payable by the employee members is 7.00 percent of annual pay, 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.

Net Pension Liability

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

The total pension liability in the December 31, 2016 and 2015, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement.

Inflation	3.0%
Salary increases	1.5%
Ad hoc cost of living adjustments	Not included
Investment rate of return	8.1%, net of pension plan administrative 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. Mortality rates for service retirees, beneficiaries and non-depositing members were based on the RP-2000 Combined Mortality Table projected to 2014 with scale AA, with a one-year setback for males and no age adjustments for females. Mortality rates for disabled retires were based on RP-2000 Disabled Mortality Table projected to 2014 with scale AA, with no age adjustment for males and a two-year set forward for females.

The actuarial assumptions used in the December 31, 2016 and 2015, 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.

		2017
Asset Class	**Target Allocation**	**Geometric Real Rate of Return (Expected Minus Inflation)**
Equities:		
U.S. Equities	13.5%	4.70%
International Equities - Developed	10.0%	4.70%
International Equities - Emerging	7.0%	5.70%
Global Equities	1.5%	5.00%
Hedge Funds	20.0%	3.85%
High-Yield Investments:		
High-Yield Bonds	3.0%	3.70%
Opportunistic Credit	2.0%	3.83%
Distressed Debt	3.0%	6.70%
Direct Lending	10.0%	8.15%
Private Equity	16.0%	7.70%
Real Assets:		
REITs	2.0%	3.85%
Private Real Estate Partnerships	6.0%	7.20%
Master Limited Partnerships	3.0%	5.60%
Investment-Grade Bonds	3.0%	0.60%
Total	100.0%	

Discount Rate

The discount rate used to measure the total pension asset was 8.1 percent at December 31, 2016 and 2015. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that Medical Center 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.

Changes in the total pension liability, plan fiduciary net position and the net pension asset for the years ended December 31, 2017 and 2016, were as follows:

	2017		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (Asset) (a) - (b)**
Balances at December 31, 2016	$ 35,747,036	$ 32,944,009	$ 2,803,027
Changes for the year:			
Service cost	1,364,536	-	1,364,536
Interest on total pension liability	2,890,913	-	2,890,913
Effect of economic/demographic gains or losses	(362,120)	-	(362,120)
Refund of contributions	(242,518)	(242,518)	-
Benefit payments	(1,237,767)	(1,237,767)	-
Administrative expenses	-	(26,488)	26,488
Member contributions	-	715,252	(715,252)
Net investment income	-	2,433,062	(2,433,062)
Employer contributions	-	803,931	(803,931)
Other changes	-	40,524	(40,524)
Net changes	2,413,044	2,485,996	(72,952)
Balances at December 31, 2017	$ 38,160,080	$ 35,430,005	$ 2,730,075

	2016		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2015	$ 33,181,974	$ 33,046,630	$ 135,344
Changes for the year:			
Service cost	1,172,884	-	1,172,884
Interest on total pension liability	2,690,911	-	2,690,911
Effect of plan changes	(276,726)	-	(276,726)
Effect of economic/demographic gains or losses	(205,707)	-	(205,707)
Effect of assumption changes or inputs	512,424	-	512,424
Refund of contributions	(197,895)	(197,895)	-
Benefit payments	(1,130,829)	(1,130,829)	-
Administrative expenses	-	(23,738)	23,738
Member contributions	-	683,488	(683,488)
Net investment loss	-	(138,800)	138,800
Employer contributions	-	783,080	(783,080)
Other changes	-	(77,927)	77,927
Net changes	2,565,062	(102,621)	2,667,683
Balances at December 31, 2016	$ 35,747,036	$ 32,944,009	$ 2,803,027

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

	1% Decrease 7.1%	Current Discount Rate 8.1%	1% Increase 9.1%
Medical Center's net pension (asset) liability	$ 8,059,722	$ 2,730,075	$ (1,633,136)

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

For the years ended December 31, 2017 and 2016, the Medical Center recognized pension expense of $1,535,665 and $1,056,573, respectively. At December 31, 2017 and 2016, the Medical Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	2017	
	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	$ 344,267	$ 23,517
Changes in assumptions	-	256,212
Net difference between projected and actual	-	2,064,319
Contributions subsequent to the measurement date	-	793,282
	$ 344,267	$ 3,137,330

	2016	
	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	$ 154,280	$ 47,033
Changes in assumptions	-	384,317
Net difference between projected and actual	-	2,527,398
Contributions subsequent to the measurement date	-	783,931
	$ 154,280	$ 3,742,679

At December 31, 2017 and 2016, the Medical Center reported $793,282 and $783,931, respectively, as deferred outflows of resources related to pensions resulting from Medical Center contributions subsequent to the measurement date that will be recognized as a decrease of the net pension liability at December 31, 2018 and 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2017, related to pensions, will be recognized in pension expense as follows:

2017	$ 680,073
2018	656,556
2019	615,651
2020	47,501
	$ 1,999,781

Note 13: Related-party Transactions

The Medical Center collaborates with the Service Organization of South East Texas (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 $456,000 and $4,661,000 during the years ended December 31, 2017 and 2016, 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.

Required Supplementary Information

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Schedule of Changes in the Medical Center's Net Pension Liability and Related Ratios

	2017	2016	2015
Total Pension Liability			
Service cost	$ 1,364,536	$ 1,172,884	$ 1,060,724
Interest on total pension liability	2,890,913	2,690,911	2,483,007
Effect of plan changes	-	(276,726)	-
Effect of assumption changes or inputs	-	512,424	-
Effect of economic and demographic (gains) losses	(362,120)	(205,707)	94,066
Benefit payments, including refunds of employee contributions	(1,480,285)	(1,328,724)	(1,157,854)
Net Change in Total Pension Liability	2,413,044	2,565,062	2,479,943
Total Pension Liability - Beginning	35,747,036	33,181,974	30,702,031
Total Pension Liability - Ending (a)	$ 38,160,080	$ 35,747,036	$ 33,181,974
Plan Fiduciary Net Position			
Contributions-employer	$ 803,931	$ 783,080	$ 708,827
Contributions-employee	715,252	683,488	620,401
Net investment income (loss)	2,433,062	(138,800)	2,098,712
Benefit payments, including refunds of employee contributions	(1,480,285)	(1,328,724)	(1,157,854)
Administrative expense	(26,488)	(23,738)	(24,573)
Other	40,524	(77,927)	46,496
Net Change in Plan Fiduciary Net Position	2,485,996	(102,621)	2,292,009
Plan Fiduciary Net Position - Beginning	32,944,009	33,046,630	30,754,621
Plan Fiduciary Net Position - Ending (b)	$ 35,430,005	$ 32,944,009	$ 33,046,630
Medical Center's Net Pension Liability - Ending (a)-(b)	$ 2,730,075	$ 2,803,027	$ 135,344
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset	92.85%	92.16%	99.59%
Covered-employee Payroll	$ 10,217,883	$ 9,764,116	$ 8,623,215
Medical Center's Net Pension Liability as a Percentage of Covered-employee Payroll	26.72%	28.71%	1.57%

Note to Schedule:

Changes of assumptions: In the 2015 actuarial valuation, for mortality rates used for depositing members, service retirees, beneficiaries, non-depositing members and disabled retirees, the RP-2000 tables were projected to 2014 and later with 110% of the MP-2014 Ultimate Scale.

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Schedule of the Medical Center's Contributions

	2017	2016	2015
Actuarially determined contribution	$ 689,451	$ 783,931	$ 783,080
Contributions in relation to the actuarially determined contribution	689,451	783,931	783,080
Contribution deficiency (excess)	$ 0	$ 0	$ 0
Covered-employee payroll *(1)*	$ 9,849,300	$ 10,292,414	$ 9,764,090
Contributions as a percentage of covered-employee payroll	7.0%	7.6%	8.0%

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	Level percentage of payroll, closed
Remaining amortization period	14.9 years
Asset valuation method	5-year smoothed market
Inflation	3%
Salary increases	Varies by age and service, 4.9% average over career including inflation
Investment rate of return	8.0%, net of pension plan investment expense, including inflation
Retirement age	Employees who are eligible for retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61
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 to 2014 and then projected with 110% of the MP-2014 Ultimate Scale thereafter