Memorial Medical Center
A Component Unit of Calhoun County, Texas

Independent Auditor's Report and Financial Statements

December 31, 2019 and 2018

BKD
CPAs & Advisors

Memorial Medical Center
A Component Unit of Calhoun County, Texas
December 31, 2019 and 2018

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, 2019 and 2018, 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, 2019 and 2018, 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 22, 2020

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Management's Discussion and Analysis
December 31, 2019 and 2018

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, 2019 and 2018. 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 decreased in 2019 by $2,453,000, or 75 percent, and increased in 2018 by $477,000, or 17 percent.
- The Medical Center's net position increased in 2019 by $458,000 or 4 percent, and decreased in 2018 by $773,000, or 6 percent.
- The Medical Center reported an operating income in 2019 of $454,000 and an operating loss in 2018 of $771,000. The operating income in 2019 increased by $1,225,000, or 159 percent from the operating loss reported in 2018. The operating loss in 2018 decreased by $1,213,000, or 61 percent, from the operating loss reported in 2017.
- Net nonoperating expenses decreased by $10,000 in 2019 compared to 2018, and decreased by $463,000 in 2018 compared to 2017.

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 and all deferred inflows and outflows of resources using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Medical Center's net position and changes in it. The Medical Center's total net position—the difference between assets and liabilities and deferred inflows and outflows of resources—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, liabilities and deferred inflows and outflows of resources reported in the balance sheets. The Medical Center's net position increased by $458,000, or 4 percent, in 2019 and decreased by $773,000, or 6 percent, in 2018, as shown in Table 1.

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

	2019	2018	2017
Assets and Deferred Outflows of Resources			
Assets			
Patient accounts receivable, net	$ 3,328,811	$ 2,714,152	$ 2,100,148
Nursing home resident receivable, net	12,183,425	8,529,219	7,835,431
Other current assets	9,411,817	9,669,451	8,563,337
Capital assets, net	7,064,910	7,009,205	7,207,942
Other assets	-	-	231,978
Total assets	31,988,963	27,922,027	25,938,836
Deferred Outflows of Resources	3,664,737	1,271,387	3,137,330
Total assets and deferred outflows of resources	$ 35,653,700	$ 29,193,414	$ 29,076,166

	2019	2018	2017
Liabilities, Deferred Inflows of Resources and Net Position			
Liabilities			
Current liabilities	$ 18,249,196	$ 15,124,269	$ 12,604,105
Long-term debt	489,981	765,826	929,155
Net pension liability	4,731,148	897,238	2,730,075
Total liabilities	23,470,325	16,787,333	16,263,335
Deferred Inflows of Resources	28,650	710,139	344,267
Net Position			
Net investment in capital assets	6,294,202	5,984,159	5,914,446
Unrestricted	5,860,523	5,711,783	6,554,118
Total net position	12,154,725	11,695,942	12,468,564
Total liabilities, deferred inflows of resources and net position	$ 35,653,700	$ 29,193,414	$ 29,076,166

The most significant changes in the Medical Center's financial position during 2019 was an increase in deferred outflows of resources related to pension of $2,394,000, an increase in patient accounts receivable of $615,000, an increase in nursing home resident receivables of $3,654,000, and an increase in other current assets of $1,376,000 due to increases in Medicaid supplemental payment programs. Current liabilities increased by $2,305,000, and the net pension liability increased by $3,834,000 in 2019.

The most significant changes in the Medical Center's financial position during 2018 was a decrease in deferred outflows of resources related to pension of $1,866,000, which was offset by increases in nursing home resident receivables of $694,000, and an increase in other current assets of $926,000. Current liabilities increased by $2,520,000 in 2018, which was offset by a decrease in net pension liability of $1,833,000.

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

In 2019, the Medical Center's net position increased by $458,000, or 4 percent, as shown in Table 2. The Medical Center's net position decreased by $773,000 in 2018, or 6 percent and decreased by $1,525,000 in 2017, or 257 percent.

Table 2: Operating Results and Changes in Net Position

	2019	2018	2017
Operating Revenues			
Net patient service revenue	$ 27,806,914	$ 24,426,673	$ 24,102,295
Nursing home resident revenue	58,935,509	56,208,993	46,522,139
Other	2,874,158	1,755,520	1,196,777
Total operating revenues	89,616,581	82,391,186	71,821,211

	2019	2018	2017
Operating Expenses			
Salaries, wages and employee benefits	$ 16,340,583	$ 14,100,182	$ 13,675,652
Purchased services and professional fees	8,756,726	7,643,068	7,574,982
Nursing home expenses	57,502,833	55,271,738	46,319,956
Depreciation and amortization	983,531	1,077,148	989,818
Other	5,578,880	5,070,424	5,244,960
Total operating expenses	89,162,553	83,162,560	73,805,368
Operating Income (Loss)	454,028	(771,374)	(1,984,157)
Nonoperating Revenues (Expenses)			
Investment income	14,914	14,599	9,570
Interest expense	(30,159)	(39,643)	(27,800)
Other	-	-	455,741
Total nonoperating revenues (expenses)	(15,245)	(25,044)	437,511
Grants for Property and Equipment	20,000	23,796	22,000
Increase (Decrease) in Net Position	$ 458,783	$ (772,622)	$ (1,524,646)

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 2019 and 2018. 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 income for 2019 increased by approximately $1,225,000 or 159 percent, as compared to the operating loss in 2018. The primary component of the increase in the operating income is an increase in the operating income generated from the Texas Medicaid supplemental funding programs from $2,271,000 during 2018 to $3,671,000 during 2019, an increase of $1,400,000. Also, the operating income generated by nursing home activities increased from $937,000 during 2018 to $1,433,000 during 2019, an increase of $496,000. Net operating revenues for 2019 increased by $7,225,000, or 9 percent, which was primarily due to an increase in the Texas Medicaid supplemental funding programs described above; other increases in net patient service revenue of $1,980,000, or 9 percent; an increase in nursing home resident revenue of $2,727,000 or 5 percent; and an increase in other operating revenues of $1,119,000 or 64 percent. Other operating revenues principally increased due to increase in revenues from the 340B program and cafeteria sales. Total operating expenses increased by $6,000,000, or 7 percent, which was primarily due to an increase in salaries, wages and employee benefits, an increase in purchased services and an increase in nursing home expenses during 2019. The actuarial determined pension expense, which is a component of employee benefit expenses, increased by $360,000 in 2019 compared to 2018.

The operating loss for 2018 decreased by approximately $1,213,000, or 61 percent, as compared to the operating loss in 2017. The primary component of the decrease in the operating loss is an increase in the operating income generated by nursing home activities from $202,000 during 2017 to $937,000 during

2018, an increase of $735,000. Net operating revenues for 2018 increased by $10,570,000, or 15 percent, which was primarily due to an increase in nursing home resident revenue during 2018 and an increase in other operating revenues of $559,000, principally due to increases in revenues from the 340B program and cafeteria sales. Total operating expenses increased by $9,357,000, or 13 percent, which was primarily due to an increase in nursing home expenses during 2018.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of investment income, interest expense and, prior to 2018, private Upper Payment Limit (UPL) expense and on-behalf of payments. During 2017, the private UPL program was terminated.

The Medical Center's Cash Flows

During 2019, cash provided by operating activities decreased by $2,785,000 over 2018, primarily due to increases in the amounts paid to suppliers and contractors as well as to employees. Cash used in noncapital financing activities remained consistent. Cash used in capital and related financing activities increased by $146,000 over 2018 due to an increase in cash spent for capital equipment. Cash provided by investing activities decreased over 2018 due to the disposition of short-term investments in 2018.

During 2018, cash provided by operating activities increased by $1,135,000 over 2017, primarily due to a increase in the amount of receipts from and on-behalf of patients. Cash used in noncapital financing activities decreased by $1,475,000 over 2017, primarily due to no private UPL program payments. Cash used in capital and related financing activities increased by $781,000 over 2017, due to a decrease in cash spending for capital equipment. Cash provided by investing activities increased over 2018 due to the disposition of short-term investments.

Capital Asset and Debt Administration

Capital Assets

At the end of 2019 and 2018, the Medical Center had $7,065,000 and $7,009,000, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements.

Debt

At December 31, 2019, the Medical Center had $771,000 in capital lease obligations outstanding. During 2019, the Medical Center borrowed and repaid notes payable to the County in the amount of $1,000,000.

At December 31, 2018, the Medical Center had $1,025,000 in capital lease obligations outstanding. During 2018, the Medical Center entered into one new capital lease obligations in the aggregate amount of $96,000 and made scheduled capital lease payments. During 2018, the Medical Center paid notes payable to the County in the amount of $1,025,000.

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, 2019 and 2018

	2019	2018
Assets and Deferred Outflows of Resources		
Current Assets		
Cash	$ 835,418	$ 3,289,130
Patient accounts receivable, net of allowance; 2019 - $5,566,000, 2018 - $4,537,000	3,328,811	2,714,152
Nursing home resident accounts receivable, net of allowance; 2019 - $2,267,000, 2018 - $1,656,000	12,183,425	8,529,219
Estimated amounts due from third-party payers	4,902,999	3,671,034
Supplies	880,187	760,837
Prepaid expenses and other	2,793,213	1,948,450
Total current assets	24,924,053	20,912,822
Capital Assets, Net	7,064,910	7,009,205
Total assets	31,988,963	27,922,027
Deferred Outflows of Resources Related to Pension	3,664,737	1,271,387
Total assets and deferred outflows of resources	$ 35,653,700	$ 29,193,414

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Balance Sheets (Continued)
December 31, 2019 and 2018

	2019	2018
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of capital lease obligations	$ 280,727	$ 259,220
Accounts payable	1,392,446	1,540,368
Accounts payable - nursing homes	13,462,864	11,029,628
Accrued expenses	2,292,790	2,295,053
Estimated amounts due to third-party payers	820,369	-
Total current liabilities	18,249,196	15,124,269
Capital Lease Obligations	489,981	765,826
Net Pension Liability	4,731,148	897,238
Total liabilities	23,470,325	16,787,333
Deferred Inflows of Resources Related to Pension	28,650	710,139
Net Position		
Net investment in capital assets	6,294,202	5,984,159
Unrestricted	5,860,523	5,711,783
Total net position	12,154,725	11,695,942
Total liabilities, deferred inflows of resources and net position	$ 35,653,700	$ 29,193,414

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2019 - $4,252,000, 2018 - $4,764,000	$ 27,806,914	$ 24,426,673
Nursing home resident revenue, net of provision for uncollectible accounts; 2019 - $726,000, 2018 - $757,000	58,935,509	56,208,993
Other	2,874,158	1,755,520
Total operating revenues	89,616,581	82,391,186
Operating Expenses		
Salaries and wages	11,478,255	10,383,287
Employee benefits	4,862,328	3,716,895
Purchased services and professional fees	8,756,726	7,643,068
Insurance	59,355	41,362
Supplies and other	5,519,525	5,029,062
Nursing home expenses	57,502,833	55,271,738
Depreciation and amortization	983,531	1,077,148
Total operating expenses	89,162,553	83,162,560
Operating Income (Loss)	454,028	(771,374)
Nonoperating Revenues (Expenses)		
Investment income	14,914	14,599
Interest expense	(30,159)	(39,643)
Total nonoperating expenses	(15,245)	(25,044)
Excess (Deficiency) of Revenues Over Expenses Before Grants for Property and Equipment	438,783	(796,418)
Grants for Property and Equipment	20,000	23,796
Increase (Decrease) in Net Position	458,783	(772,622)
Net Position, Beginning of Year	11,695,942	12,468,564
Net Position, End of Year	$ 12,154,725	$ 11,695,942

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Statements of Cash Flows
Years Ended December 31, 2019 and 2018

	2019	2018
Operating Activities		
Receipts from patients	$ 82,220,876	$ 78,862,025
Payments to suppliers and contractors	(70,517,238)	(65,501,512)
Payments to employees	(15,742,689)	(13,490,740)
Other receipts, net	2,874,158	1,750,671
Net cash provided by (used in) operating activities	(1,164,893)	1,620,444
Noncapital Financing Activities		
Proceeds from issuance of note payable	1,000,000	1,024,512
Principal paid on notes payable	(1,000,000)	(1,024,512)
Net cash provided by noncapital financing activities	0	0
Capital and Related Financing Activities		
Grants received for property and equipment	20,000	23,796
Principal paid on capital lease obligations	(304,775)	(364,340)
Interest paid on capital lease obligations	(30,159)	(39,643)
Purchase of capital assets	(988,799)	(777,672)
Net cash used in capital and related financing activities	(1,303,733)	(1,157,859)
Investing Activities		
Interest on bank deposits	14,914	14,599
Proceeds from disposition of investments	-	500,000
Net cash provided by investing activities	14,914	514,599
Increase (Decrease) in Cash	(2,453,712)	977,184
Cash, Beginning of Year	3,289,130	2,311,946
Cash, End of Year	$ 835,418	$ 3,289,130

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Statements of Cash Flows (Continued)
Years Ended December 31, 2019 and 2018

	2019	2018
Reconciliation of Operating Income (Loss) to Net Cash Provided by (Used in) Operating Activities		
Operating income (loss)	$ 454,028	$ (771,374)
Depreciation and amortization	983,531	1,077,148
Provision for uncollectible accounts	4,978,000	5,521,000
Gain on disposal of assets	-	(4,849)
Changes in operating assets and liabilities:		
Patients accounts receivable, net	(9,246,865)	(6,828,792)
Estimated amounts due from and to third-party payers	(411,596)	(230,436)
Accounts payable and accrued expenses	2,283,051	2,625,285
Deferred outflows of resources - pensions	(2,393,350)	1,865,943
Deferred inflows of resources - pensions	(681,489)	365,872
Net pension liability	3,833,910	(1,832,837)
Other assets and liabilities	(964,113)	(166,516)
Net cash provided by (used in) operating activities	$ (1,164,893)	$ 1,620,444
Noncash Capital and Financing Activities		
Capital lease obligation incurred for capital assets	$ 50,437	$ 95,890

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 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 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.

Investment Income

Investment income consists of interest income earned on bank deposits.

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	3-20 years

Deferred Outflows of Resources

The Medical Center reports the consumption of net position that is applicable to a future reporting period as deferred outflows of resources in a separate section of its balance sheet.

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 an acquisition of net position that is applicable to a future reporting period as deferred inflows of resources in a separate section of its balance sheet.

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.

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 the following:

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 67 percent and 71 percent of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2019 and 2018, 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.

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.

Supplemental Medicaid Funding Revenue

In response to the growing number of uninsured patients and the rising cost of health care, the Texas Legislature established at Texas Medicaid Disproportionate Share Program (DSH Program) that was designed to assist those facilities serving the majority of the indigent patients in the state by providing funds supporting increased access to health care within the community. This program allows the Texas Department of Human Services to levy assessments from certain hospitals, use the accessed funds to obtain federal matching funds, and then redistribute the total funds to those facilities serving a disproportionate share of indigent patients in the state of Texas.

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" (Waiver). This demonstration expanded existing Medicaid managed care programs and established two funding pools that assist providers with uncompensated care costs (UC Pool) and promote health system transformation (DSRIP Pool) 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. Among other changes, the approved plan requires a change in the methodology used to allocate UC funds and a phase out of the DSRIP program over the five year period. Changes in the funding mechanics of these programs could have an adverse opinion on the Medical Center's operating results.

Total funding received through the Texas Medicaid supplemental funding programs was approximately $4,270,000 and $2,906,000 for the years ended December 31, 2019 and 2018, respectively.

The funding from the DSH Program and the UC Pool has historically been limited by a federally determined Hospital Specific Limit (HSL) calculation and is subject to recoupment based on subsequent audit results. There has been litigation in U.S. district and circuit appellate courts regarding the legislative intent of certain aspects of the HSL calculation. On August 13, 2019, the D.C. Circuit Court of Appeals issued an opinion in the case of *Children's Hospital Association of Texas vs. Azar* that held that the HSL could be reduced by payments received from other third-party payers related to Medicaid eligible patients. This would result in a recoupment of DSH Program and UC Pool funds the Medical Center has received for 2019 and 2018. There are similar cases being considered in other appellate courts and there has been no clarification on the effective date of the application of this rule. As a result of this uncertainty, the Medical Center has not recorded a liability for potential funding recoupment. However, the Medical Center has estimated a potential liability of approximately $980,000 should the final resolution result in the HSL reduction described above with retroactive application.

Nursing Home Revenue

In February 2015, April 2017 and May 2019, 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 seven nursing homes. The lease agreements call for annual payments approximating $6,951,000 as of December 31, 2019, and $6,134,000 as of December 31, 2018, the payment of which will be solely made from the operations of the nursing homes. The leases expire in August 2019 through September 2020 and extend automatically either annually or every two years.

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 participates in a program developed by Texas Health and Human Services Commission (HHSC) 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 the Centers for Medicare and Medicaid Services approval for this quality program (Quality Improvement Payment Program) that began on September 1, 2017.

At December 31, 2019 and 2018, the Medical Center recorded prepaid expenses under the program of approximately $1,929,000 and $1,491,000, respectively, which represents the prepaid intergovernmental transfers the Medical Center is required to contribute in advance of receiving any gross proceeds. As of December 31, 2019 and 2018, revenues recognized under this program were approximately $4,893,000 and $3,975,000, respectively, and are included in nursing home resident revenue and expenses were approximately $2,501,000 and $2,091,000, respectively, and are included in nursing home expenses.

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, 2019 and 2018, the Medical Center's bank balances were insured or collateralized by assets held in other than the Medical Center's name.

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, 2019 and 2018, consisted of:

	2019	2018
Medicare	$ 1,274,368	$ 1,230,744
Medicaid	716,975	366,516
Other third-party payers	2,983,426	1,709,700
Patients	3,920,042	3,944,192
	8,894,811	7,251,152
Less allowance for uncollectible accounts	5,566,000	4,537,000
	$ 3,328,811	$ 2,714,152

Nursing home resident accounts receivable at December 31, 2019 and 2018, consisted of:

	2019	2018
Medicare	$ 7,449,416	$ 5,777,035
Medicaid	1,288,145	813,197
Other third-party payers	3,541,594	1,545,784
Patients	2,171,270	2,049,203
	14,450,425	10,185,219
Less allowance for uncollectible accounts	2,267,000	1,656,000
	$ 12,183,425	$ 8,529,219

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2019 and 2018, was as follows:

	2019				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets:					
Land	$ 461,793	$ -	$ -	$ -	$ 461,793
Buildings and improvements	13,451,765	12,567		-	13,464,332
Equipment	9,092,894	976,232	(251,605)	-	9,817,521
Leased assets	3,736,411	50,437	-	-	3,786,848
Construction in progress	500	-	-	-	500
Total capital assets	26,743,363	1,039,236	(251,605)	0	27,530,994
Less accumulated depreciation:					
Buildings and improvements	(9,106,198)	(303,015)		-	(9,409,213)
Equipment	(7,938,324)	(369,415)	251,605	-	(8,056,134)
Leased assets	(2,689,636)	(311,101)	-	-	(3,000,737)
Total accumulated depreciation	(19,734,158)	(983,531)	251,605	0	(20,466,084)
Capital assets, net	$ 7,009,205	$ 55,705	$ 0	$ 0	$ 7,064,910

	2018				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets:					
Land	$ 320,593	$ 141,200	$ -	$ -	$ 461,793
Buildings and improvements	13,212,864	276,889	(37,988)	-	13,451,765
Equipment	13,608,629	359,083	(4,874,818)	-	9,092,894
Leased assets	3,640,521	95,890	-	-	3,736,411
Construction in progress	-	500	-	-	500
Total capital assets	30,782,607	873,562	(4,912,806)	0	26,743,363
Less accumulated depreciation:					
Buildings and improvements	(8,813,601)	(330,540)	37,943	-	(9,106,198)
Equipment	(12,424,550)	(393,486)	4,879,712	-	(7,938,324)
Leased assets	(2,336,514)	(353,122)	-	-	(2,689,636)
Total accumulated depreciation	(23,574,665)	(1,077,148)	4,917,655	0	(19,734,158)
Capital assets, net	$ 7,207,942	$ (203,586)	$ 4,849	$ 0	$ 7,009,205

Note 6: Notes Payable

The following is a summary of notes payable transactions for the Medical Center for the years ended December 31, 2019 and 2018:

	Beginning Balance	Additions	Deductions	Ending Balance
Notes payable:				
Noninterest-bearing note - 2019	$ 0	$ 1,000,000	$ (1,000,000)	$ 0
Noninterest-bearing note - 2018	$ 0	$ 1,024,512	$ (1,024,512)	$ 0

As of December 31, 2019 and 2018, the Medical Center has a noninterest-bearing line of credit payable on demand with the County in the amount of $1,000,000 and $4,000,000 respectively. As of December 31, 2019 and 2018, no amounts 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, 2019 and 2018, consisted of the following.

	2019	2018
Payable to suppliers and contractors	$ 1,012,494	$ 1,110,490
Payable to employees (including payroll taxes and benefits)	1,120,169	1,281,346
Accrued IGT payments	1,172,621	1,013,707
Payable to nursing home management company	13,462,864	11,029,628
Other	379,952	429,878
	$ 17,148,100	$ 14,865,049

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. Until February 2019, the Medical Center was 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.

Activity in the Medical Center's accrued employee health claims liability during 2019 and 2018, which is included in accrued expenses in the accompanying balance sheets, is summarized as follows.

	2019	2018
Balance, beginning of year	$ 200,000	$ 284,889
Current year claims incurred and changes in estimates for claims incurred in prior years	319,804	1,322,154
Claims and expenses paid	(519,804)	(1,407,043)
Balance, end of year	$ 0	$ 200,000

Beginning in February 2019, the Medical Center purchases health insurance for its employees.

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, 2019 and 2018:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Capital lease obligations - 2019	$ 1,025,046	$ 50,437	$ (304,775)	$ 770,708	$ 280,727
Capital lease obligations - 2018	$ 1,293,496	$ 95,890	$ (364,340)	$ 1,025,046	$ 259,220

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, 2019 and 2018, totaled $3,786,848 and $3,736,411, respectively, net of accumulated depreciation of $3,000,737 and $2,689,636 respectively. The following is a schedule, by year, of future minimum lease payments under capital leases, including interest at rates ranging from 2.9 percent to 12.2 percent, together with the present value of the future minimum lease payments as of December 31, 2019:

Year Ending December 31,	Total to be Paid	Principal	Interest
2020	$ 305,598	$ 280,727	$ 24,871
2021	244,042	228,446	15,596
2022	222,128	215,814	6,314
2023	32,616	31,362	1,254
2024	12,808	12,532	276
Thereafter	1,835	1,827	8
	$ 819,027	$ 770,708	$ 48,319

Note 11: Charity Care

The costs of charity care provided under the Medical Center's charity care policy were approximately $3,975,000 and $4,165,000 for 2019 and 2018, 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 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, 2018 and 2017, measurement date are as follows.

	2018	2017
Inactive employees or beneficiaries currently receiving benefits	106	103
Inactive employees entitled to but not yet receiving benefits	373	371
Active employees	280	251
	759	725

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 $1,001,315, and 7.0 percent of annual pay, or $853,589, for calendar years 2019 and 2018, 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, 2019 and 2018, was measured as of December 31, 2018 and 2017, respectively, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date.

The total pension liability in the December 31, 2018 and 2017, actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

	2018	2017
Inflation	2.75%	2.75%
Salary increases	4.90%	4.90%
Ad hoc cost of living adjustments	N/A	N/A
Investment rate of return, net	8.00%	8.00%

The December 31, 2018 and 2017, actuarial valuation mortality rates for depositing members were based on 90 percent of the RP-2014 Active Employee Mortality Table for females and males projected with 110 percent of the MP-2014 Ultimate scale after 2014. Mortality rates for service retirees, beneficiaries and non-depositing members were based on 110 percent of the

RP-2014 Healthy Annuitant Mortality Table for females and 130 percent of the RP-2014 Healthy Annuitant Mortality Table for males, both projected with 110 percent of the MP-2014 Ultimate scale after 2014. Mortality rates for disabled retires were based on 115 percent of the RP-2014 Disabled Annuitant Mortality Table for females and 130 percent of the RP-2014 Disabled Annuitant Mortality Table for males, both projected with 110 percent of the MP-2014 Ultimate scale after 2014.

The actuarial assumptions used in the December 31, 2018 and 2017, valuations were based on the results of an actuarial experience study for the period January 1, 2013 through December 31, 2016. 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:

	2019	
Asset Class	**Target Allocation**	**Geometric Real Rate of Return (Expected Minus Inflation)**
Equities:		
U.S. Equities	10.5%	5.40%
International Equities - Developed	10.0%	5.40%
International Equities - Emerging	7.0%	5.90%
Global Equities	2.5%	5.70%
Hedge Funds	13.0%	3.90%
High-Yield Investments:		
Strategic Credit	12.0%	4.39%
Distressed Debt	2.0%	7.20%
Direct Lending	11.0%	7.95%
Private Equity	18.0%	8.40%
Real Assets:		
REITs	2.0%	4.15%
Private Real Estate Partnerships	6.0%	6.30%
Master Limited Partnerships	3.0%	5.35%
Investment-Grade Bonds	3.0%	1.60%
Total	100.0%	

Discount Rate

The discount rate used to measure the total pension asset was 8.1 percent at December 31, 2018 and 2017. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and 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 liability for the years ended December 31, 2019 and 2018, were as follows:

	2019		
	Total Pension Liability (a)	**Plan Fiduciary Net Position (b)**	**Net Pension Liability (Asset) (a) - (b)**
Balances at December 31, 2018	$ 41,353,960	$ 40,456,722	$ 897,238
Changes for the year:			
Service cost	1,201,855	-	1,201,855
Interest on total pension liability	3,370,152	-	3,370,152
Effect of economic/demographic gains or losses	31,811	-	31,811
Effect of assumptions changes or inputs	-	-	-
Refund of contributions	(238,037)	(238,037)	-
Benefit payments	(1,697,656)	(1,697,656)	-
Administrative expenses	-	(31,559)	31,559
Member contributions	-	712,748	(712,748)
Net investment income	-	(757,827)	757,827
Employer contributions	-	853,588	(853,588)
Other changes	-	(7,042)	7,042
Net changes	2,668,125	(1,165,785)	3,833,910
Balances at December 31, 2019	$ 44,022,085	$ 39,290,937	$ 4,731,148

	2018		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2017	$ 38,160,080	$ 35,430,005	$ 2,730,075
Changes for the year:			
Service cost	1,309,712	-	1,309,712
Interest on total pension liability	3,133,594	-	3,133,594
Effect of economic/demographic gains or losses	(85,948)	-	(85,948)
Effect of assumptions changes or inputs	434,538	-	434,538
Refund of contributions	(203,835)	(203,835)	-
Benefit payments	(1,394,181)	(1,394,181)	-
Administrative expenses	-	(26,905)	26,905
Member contributions	-	690,434	(690,434)
Net investment loss	-	5,169,706	(5,169,706)
Employer contributions	-	793,282	(793,282)
Other changes	-	(1,784)	1,784
Net changes	3,193,880	5,026,717	(1,832,837)
Balances at December 31, 2018	$ 41,353,960	$ 40,456,722	$ 897,238

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	$ 10,895,456	$ 4,731,148	$ (375,784)

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

For the years ended December 31, 2019 and 2018, the Medical Center recognized pension expense of $1,760,384 and $1,252,568, respectively. At December 31, 2019 and 2018, the Medical Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	2019	
	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	$ 28,650	$ 23,858
Changes in assumptions	-	144,846
Net difference between projected and actual	-	2,494,718
Contributions subsequent to the measurement date	-	1,001,315
	$ 28,650	$ 3,664,737

	2018	
	Deferred Inflows of Resources	Deferred Outflows of Resources
Differences between expected and actual experience	$ 229,432	$ -
Changes in assumptions	-	417,798
Net difference between projected and actual	480,707	-
Contributions subsequent to the measurement date	-	853,589
	$ 710,139	$ 1,271,387

At December 31, 2019 and 2018, the Medical Center reported $1,001,315 and $853,589, 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, 2020 and 2019. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2019, related to pensions, will be recognized in pension expense as follows:

2020	$ 1,082,414
2021	398,067
2022	350,566
2023	803,725
	$ 2,634,772

Note 13: Contingencies

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 14: Coronavirus (COVID-19)

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, many governments have issued guidance limiting public gatherings and business operations to slow the spread of the virus. As a result, the Medical Center has experienced significant business disruption through reduced patient revenue related to elective procedures and physician office visits. The increased demand for health care supplies and equipment nationwide has increased costs and caused potential shortages that could further impact the Medical Center's financial performance.

The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

On March 27, 2020, President Trump signed into law the *Coronavirus Aid, Relief, and Economic Security Act* (CARES Act). The CARES Act includes numerous provisions intended to mitigate the pandemic's financial and operational impact to health care providers. The CARES Act provides three financial measures that the Hospital expects will have a significant impact.

- A $100 billion fund was established to reimburse health care providers for COVID-19-related expenses not otherwise reimbursable. More importantly for the Medical Center, foregone revenue from canceled procedures is a qualified expense under this program. The Medical Center has received approximately $8,098,000 from this fund; however, these funds are subject to payback should the total documented COVID-19 related expense and lost revenues be less than the funds received. Additionally, these funds are subject to government oversight including audit. Key information regarding the criteria for funds such as the specific qualifications and definition of lost revenue has not been finalized. Of the $8,098,000 received, $4,296,000 was related to the Medical Center's hospital activity and $3,802,000 was related to the Medical Center's nursing home activity.

- The existing Medicare Accelerated and Advance Payment Program was expanded to a broader group of providers. This program allows hospitals and other providers to request an advance of their Medicare reimbursement. Specifically, hospitals may request up to 100 percent of their Medicare reimbursement for a 6-month period. After 120 days from the advance, Medicare will begin recoupment by withholding 100 percent of new claims processed until the advance has been repaid. The interest-free repayment period for hospitals is one year from the date of the advance. In April 2020, the Medical Center received approximately $3,757,000 from the request.

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
December 31,

	2018	2017	2016	2015	2014
Total Pension Liability					
Service cost	$ 1,201,855	$ 1,309,712	$ 1,364,536	$ 1,172,884	$ 1,060,724
Interest on total pension liability	3,370,152	3,133,594	2,890,913	2,690,911	2,483,007
Effect of plan changes	-	-	-	(276,726)	-
Effect of assumption changes or inputs	-	434,538	-	512,424	-
Effect of economic and demographic (gains) losses	31,811	(85,948)	(362,120)	(205,707)	94,066
Benefit payments, including refunds of employee contributions	(1,935,693)	(1,598,016)	(1,480,285)	(1,328,724)	(1,157,854)
Net Change in Total Pension Liability	2,668,125	3,193,880	2,413,044	2,565,062	2,479,943
Total Pension Liability - Beginning	41,353,960	$ 38,160,080	35,747,036	33,181,974	30,702,031
Total Pension Liability - Ending (a)	$ 44,022,085	$ 41,353,960	$ 38,160,080	$ 35,747,036	$ 33,181,974
Plan Fiduciary Net Position					
Contributions-employer	$ 853,588	793,282	$ 803,931	$ 783,080	$ 708,827
Contributions-employee	712,748	690,434	715,252	683,488	620,401
Net investment income (loss)	(757,827)	5,169,706	2,433,062	(138,800)	2,098,712
Benefit payments, including refunds of employee contributions	(1,935,693)	$ (1,598,016)	(1,480,285)	(1,328,724)	(1,157,854)
Administrative expense	(31,559)	(26,905)	(26,488)	(23,738)	(24,573)
Other	(7,042)	(1,784)	40,524	(77,927)	46,496
Net Change in Plan Fiduciary Net Position	(1,165,785)	5,026,717	2,485,996	(102,621)	2,292,009
Plan Fiduciary Net Position - Beginning	40,456,722	35,430,005	32,944,009	33,046,630	30,754,621
Plan Fiduciary Net Position - Ending (b)	$ 39,290,937	$ 40,456,722	$ 35,430,005	$ 32,944,009	$ 33,046,630
Medical Center's Net Pension Liability - Ending (a)-(b)	$ 4,731,148	$ 897,238	$ 2,730,075	$ 2,803,027	$ 135,344
Plan Fiduciary Net Position as a Percentage of the Total Pension Liability	89.25%	97.83%	92.85%	92.16%	99.59%
Covered-employee Payroll	$ 10,182,115	$ 9,863,336	$ 10,217,883	$ 9,764,116	$ 8,623,215
Medical Center's Net Pension Liability as a Percentage of Covered-employee Payroll	46.47%	9.10%	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.

Changes in assumptions: In the 2017 actuarial valuation, for mortality rates used for depositing members, service retirees, beneficiaries, non-depositing members and disabled retirees, varying percentages of the RP-2014 tables were after 2014 projected with 110% of the MP-2014 Ultimate Scale.

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

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Schedule of the Medical Center's Contributions
December 31,

	2019	2018	2017	2016
Actuarially determined contribution	$ 1,001,315	$ 853,588	$ 793,282	$ 803,931
Contributions in relation to the actuarially determined contribution	1,001,315	853,588	793,282	803,931
Contribution deficiency (excess)	$ 0	$ 0	$ 0	$ 0
Covered-employee payroll *(1)*	$ 11,345,028	$ 10,182,115	$ 9,863,336	$ 10,217,883
Contributions as a percentage of covered-employee payroll	8.8%	8.4%	8.0%	7.9%

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:	2019	2018	2017	2016
Actuarial cost method	Entry age normal cost for all years.			
Amortization method	Level percentage of payroll, closed for all years.			
Remaining amortization period	14.4 years	14.4 years	14.5 years	14.9 years
Asset valuation method	5-year smoothed	5-year smoothed	5-year smoothed	5-year smoothed
Inflation	2.75%	2.75%	2.75%	3.00%
Salary increases	4.90%	4.90%	4.85%	4.90%
Investment rate of return, net	8.00%	8.00%	8.00%	8.00%
Retirement age	Employees who are eligible for retirement are assumed to commence receiving benefit payments based on age for all years.			
Mortality	For depositing members 90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate Scale after 2014. For service retirees, beneficiaries and non-depositing members 130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Health Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014. For disabled retirees 130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.	For depositing members 90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate Scale after 2014. For service retirees, beneficiaries and non-depositing members 130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Health Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014. For disabled retirees 130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.	For depositing members 90% of the RP-2014 Active Employee Mortality Table for males and 90% of the RP-2014 Active Employee Mortality Table for females, projected with 110% of the MP-2014 Ultimate Scale after 2014. For service retirees, beneficiaries and non-depositing members 130% of the RP-2014 Healthy Annuitant Mortality Table for males and 110% of the RP-2014 Health Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014. For disabled retirees 130% of the RP-2014 Disabled Annuitant Mortality Table for males and 115% of the RP-2014 Disabled Annuitant Mortality Table for females, both projected with 110% of the MP-2014 Ultimate scale after 2014.	For depositing members the 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 projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale thereafter. For service retirees, beneficiaries and non-depositing members the RP-2000 Combined Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale thereafter, with a one-year set-forward for males and no age adjustment for females. For disabled retirees the RP-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale thereafter, with no age adjustment for males and a two-year set-forward for females.

2015	2014	2013	2012	2011	2010
$ 783,080	$ 708,827	$ 633,060	$ 590,398	$ 565,712	$ 603,847
783,080	708,827	633,060	590,398	565,712	603,847
$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
$ 9,764,116	$ 8,623,215	$ 8,147,521	$ 7,914,094	$ 7,868,071	$ 8,340,424
8.0%	8.2%	7.8%	7.5%	7.2%	7.2%

2015	2014	2013	2012	2011	2010
15.6 years	14.5 years	20.0 years	20.0 years	20.0 years	20.0 years
5-year smoothed	5-year smoothed	5-year smoothed	10-year smoothed	10-year smoothed	10-year smoothed
3.00%	3.00%	3.00%	3.50%	3.50%	3.50%
4.90%	4.90%	4.90%	5.40%	5.40%	5.40%
8.00%	8.00%	8.00%	8.00%	8.00%	8.00%
For depositing members the 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 projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale thereafter. For service retirees, beneficiaries and non-depositing members the RP-2000 Combined Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale thereafter, with a one-year set-forward for males and no age adjustment for females. For disabled retirees the RP-2000 Disabled Mortality Table projected to 2014 with scale AA and then projected with 110% of the MP-2014 Ultimate scale thereafter, with no age adjustment for males and a two-year set-forward for females.	For depositing members the RP-2000 Active Employee Mortality Table for males with a three-year set-forward and the RP-2000 Active Employee Mortality Table for females with a two-year setback, both with the projection scale AA. For service retirees, beneficiaries and non-depositing members the RP-2000 Combined Mortality Table with the projection scale AA, a one-year set-forward for males and no age adjustment for females. For disabled retirees the RP-2000 Disabled Mortality Tables for males with no age adjustment and RP-2000 Disabled Mortality Table for females with a two-year set-forward, both with the projection scale AA.	For depositing members the 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. For service retirees, beneficiaries and non-depositing members the RP-2000 Combined Mortality Table with the projection scale AA, a one-year set-forward for males and no age adjustment for females. For disabled retirees the RP-2000 Disabled Mortality Tables for males with no age adjustment and RP-2000 Disabled Mortality Table for females with a two-year set-forward, both with the projection scale AA.	For depositing members the RP-2000 Active Employee Mortality Table for males with a three-year set-forward and the RP-2000 Active Employee Mortality Table for females with a two-year setback, both with the projection scale AA. For service retirees, beneficiaries and non-depositing members the RP-2000 Combined Mortality Table with the projection scale AA, a one-year set-forward for males and no age adjustment for females. For disabled retirees the RP-2000 Disabled Mortality Tables for males and females, both with a two-year set-forward and the projection scale AA.	For depositing members the RP-2000 Active Employee Mortality Table for males with a three-year set-forward and the RP-2000 Active Employee Mortality Table for females with a two-year setback, both with the projection scale AA. For service retirees, beneficiaries and non-depositing members the RP-2000 Combined Mortality Table with the projection scale AA, a one-year set-forward for males and no age adjustment for females. For disabled retirees the RP-2000 Disabled Mortality Tables for males and females, both with a two-year set-forward and the projection scale AA.	For depositing members the RP-2000 Active Employee Mortality Table for males with a three-year set-forward and the RP-2000 Active Employee Mortality Table for females with a two-year setback, both with the projection scale AA. For service retirees, beneficiaries and non-depositing members the RP-2000 Combined Mortality Table with the projection scale AA, a one-year set-forward for males and no age adjustment for females. For disabled retirees the RP-2000 Disabled Mortality Tables for males and females, both with a two-year set-forward and the projection scale AA.