Memorial Medical Center
A Component Unit of Calhoun County, Texas

Independent Auditor's Report and Financial Statements

December 31, 2015 and 2014

BKD LLP
CPAs & Advisors

Memorial Medical Center
A Component Unit of Calhoun County, Texas
December 31, 2015 and 2014

Contents

BKD LLP
CPAs & Advisors

2800 Post Oak Boulevard, Suite 3200 // Houston, TX 77056-6167
713.499.4600 // fax 713.499.4699 // bkd.com

Independent Auditor's Report

Board of Managers
Memorial Medical Center
Port Lavaca, Texas

We have audited the accompanying balance sheets of Memorial Medical Center, a component unit of Calhoun County, Texas, as of December 31, 2015 and 2014, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise Memorial Medical Center's basic financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Memorial Medical Center as of December 31, 2015 and 2014, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, in 2015, the Medical Center changed its method of accounting for pension plans in accordance with Government and Accounting Standards Board (GASB) Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. Our opinion is not modified with respect to this matter.

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 listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audits of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

BKD, LLP

Houston, Texas
July 18, 2016

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Management's Discussion and Analysis
December 31, 2015 and 2014

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, 2015 and 2014. 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

- In February 2015, the Medical Center acquired operations of five nursing homes, all of which are participating in the Texas Minimum Payment Amounts to Qualified Nursing Facilities Program (MPAP).
- Cash and investments decreased in 2015 by $200,000, or 4 percent, and increased in 2014 by $294,000, or 7 percent.
- The Medical Center's net position increased in 2015 by $2,595,000, or 25 percent, including the impact of the change in accounting principle related to the pension plan, and increased in 2014 by $1,715,000, or 20 percent.
- The Medical Center reported an operating loss in 2015 of $553,000 and operating income in 2014 of $243,000. The operating loss in 2015 increased by $796,000, or 328 percent, from the operating income reported in 2014. The operating income in 2014 increased by $239,000, or 6,025 percent, from the operating income reported in 2013.
- Net nonoperating revenues decreased by $504,000 in 2015 compared to 2014, and increased by $346,000 in 2014 compared to 2013.

Using This Annual Report

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

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

One of the most important questions asked about any Medical Center's finances is "Is the Medical Center as a whole better or worse off as a result of the year's activities?" The balance sheet and the statement of revenues, expenses and changes in net position report information about the Medical Center's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. Using the accrual basis of accounting means that all of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Medical Center's net position and changes in it. The Medical Center's total net position—the difference between assets and liabilities—is one measure of the Medical Center's financial health or financial position. Over time, increases or decreases in the Medical Center's net position are an indicator of whether its financial health is improving or deteriorating. Other nonfinancial factors, such as changes in the Medical Center's patient base, changes in legislation and regulations, measures of the quantity and quality of services provided to its patients, and local economic factors should also be considered to assess the overall financial health of the Medical Center.

The Statement of Cash Flows

The statement of cash flows reports cash receipts, cash payments and net changes in cash resulting from four defined types of activities. It provides answers to such questions as where did cash come from, what was cash used for and what was the change in cash during the reporting period.

The Medical Center's Net Position

The Medical Center's net position is the difference between its assets and liabilities reported in the balance sheets. The Medical Center's net position increased by $2,595,000, or 25 percent, in 2015 and increased by $1,715,000, or 20 percent, in 2014, as shown in Table 1.

Effective January 1, 2015, the Medical Center changed its method of accounting for pension plans in accordance with Governmental Accounting Standards Board (GASB) Statement No.68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. The years ended December 31, 2014 and 2013 have not been restated for the adoption as the information was not available. Therefore, the impact of the change in the method of accounting for pension plans was recognized through a restatement of 2015 beginning net position.

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

	2015	2014	2013
Assets and Deferred Outflows of Resources			
Assets			
Patient accounts receivable, net	$ 2,750,665	$ 2,459,647	$ 2,431,028
Nursing home resident receivable, net	5,210,126	-	-
Other current assets	11,951,362	8,281,535	7,340,299
Capital assets, net	7,618,709	4,414,658	4,054,496
Total assets	27,530,862	15,155,840	13,825,823
Deferred Outflows of Resources	1,193,358	-	-
Total assets and deferred outflows of resources	$ 28,724,220	$ 15,155,840	$ 13,825,823

	2015	2014	2013
Liabilities and Net Position			
Liabilities			
Current liabilities	$ 15,089,024	$ 4,355,861	$ 4,902,791
Long-term debt	477,254	372,558	210,905
Net pension liability	135,344	-	-
Total liabilities	15,701,622	4,728,419	5,113,696
Net Position			
Net investment in capital assets	6,433,047	3,789,546	3,548,772
Restricted-expendable for equipment	-	-	1,818
Unrestricted	6,589,551	6,637,875	5,161,537
Total net position	13,022,598	10,427,421	8,712,127
Total liabilities and net position	$ 28,724,220	$ 15,155,840	$ 13,825,823

The most significant changes in the Medical Center's financial position during 2015 were an increase in nursing home resident receivables of $5,210,000 and a change in accounting principle related to the pension plan as discussed further in Note 1 to the financial statements. Deferred outflows of resources increased by $1,193,000, net pension liability increased by $135,000 and net position as of January 1, 2015 increased by $761,000.

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

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

In 2015, the Medical Center's net position increased by $1,834,000 as shown in Table 2, excluding the impact of the change in accounting principle related to the pension plan as previously discussed. Including the impact of the change in accounting principle related to the pension plan net position increased by $2,595,000, or 25 percent. Total operating revenues increased primarily due to an increase in nursing home resident revenues. Total operating expenses increased primarily due to an increase in nursing home expenses. The Medical Center's change in net position increased by $1,715,000 in 2014, or 20 percent and increased by $810,000 in 2013, or 10 percent.

Table 2: Operating Results and Changes in Net Position

	2015	2014	2013
Operating Revenues			
Net patient service revenue	$ 22,118,675	$ 22,098,328	$ 21,005,902
Nursing home revenue	44,789,016	-	-
Other	658,550	642,487	735,074
Total operating revenues	67,566,241	22,740,815	21,740,976

	2015	2014	2013
Operating Expenses			
Salaries, wages and employee benefits	$ 12,563,643	$ 11,552,102	$ 10,731,808
Purchased services and professional fees	5,790,273	5,008,624	5,371,435
Nursing home expenses	43,684,866	-	-
Depreciation and amortization	925,920	964,776	952,347
Other	5,154,691	4,972,689	4,681,425
Total operating expenses	68,119,393	22,498,191	21,737,015
Operating Income (Loss)	(553,152)	242,624	3,961
Nonoperating Revenues (Expenses)			
Noncapital grants and contributions	-	7,840	82,586
Investment income	1,245	1,234	6,218
Interest expense	(43,727)	(29,580)	(21,542)
Other	689,158	1,171,306	737,282
Total nonoperating revenues	646,676	1,150,800	804,544
Grants for Property and Equipment	1,740,236	321,870	1,818
Increase in Net Position	$ 1,833,760	$ 1,715,294	$ 810,323

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 2015 and operating income in 2014. The Medical Center was formed and is operated primarily to serve residents of Calhoun County and the surrounding area.

The operating loss for 2015 increased by approximately $796,000, or 328 percent, as compared to the operating income in 2014. The primary component of the increase in the operating loss is an increase in salaries and benefits paid to employees. Net operating revenues for 2015 increased by $44,825,000, or 197 percent, which was primarily due to an increase in nursing home resident revenue during 2015. Total operating expenses increased by $45,621,000, or 203 percent, which was primarily due to an increase in nursing home expenses during 2015. Nursing home activities generated $1,104,000 of operating income during 2015.

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

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of noncapital grants and contributions to the Medical Center, investment income, interest expense, private UPL expense and on-behalf of payments. The Medical Center recognized private UPL expense of $2,435,000 and on-behalf of payments of

$3,124,000 during 2015. The Medical Center recognized private UPL expense of $1,210,000 and on-behalf of payments of $2,381,000 during 2014. Between 2015 and 2014, private UPL expense increased by $1,225,000 and on-behalf of payments increased by $743,000.

The Medical Center's Cash Flows

During 2015, cash provided by operating activities decreased by $3,181,000 over 2014, primarily due to an increase in the amount of payments to employees and the net impact of the nursing home operations. Cash provided by noncapital financing activities increased by $3,647,000 over 2014, due to borrowing incurred to fund noncapital activities. Cash used in capital and related financing activities increased by $960,000 due to an increase in cash spending for capital equipment. Cash provided by investing activities remained consistent with 2014.

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

Capital Asset and Debt Administration

Capital Assets

At the end of 2015 and 2014, the Medical Center had $7,619,000 and $4,415,000, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements.

Debt

At December 31, 2015, the Medical Center had $743,000 in capital lease obligations outstanding. During 2015, the Medical Center entered into four new capital lease obligations in the aggregate amount of $458,000 and made scheduled capital lease payments. The Medical Center also increased notes payable to the County in the amount of $2,882,000 to fund noncapital activities.

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

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, 2015 and 2014

Assets and Deferred Outflows of Resources

		2015		2014
Current Assets				
Cash	$	4,075,917	$	4,275,602
Short-term investments		500,000		500,000
Patient accounts receivable, net of allowance; 2015 - $3,802,000, 2014 - $3,865,000		2,750,665		2,459,647
Nursing home resident accounts receivable, net of allowance; 2015 - $425,000		5,210,126		-
Supplies		837,079		706,379
Other receivables and prepaid expenses		6,538,366		2,799,554
Total current assets		19,912,153		10,741,182
Capital Assets, Net		7,618,709		4,414,658
Total assets		27,530,862		15,155,840
Deferred Outflows of Resources		1,193,358		-
Total assets and deferred outflows of resources	$	28,724,220	$	15,155,840

Liabilities and Net Position

	2015	2014
Current Liabilities		
Current maturities of long-term debt	$ 265,632	$ 252,554
Notes payable	3,381,759	500,000
Accounts payable	1,098,099	696,897
Accounts payable - nursing homes	6,662,726	-
Accrued expenses	3,611,857	2,468,376
Estimated amounts due to third-party payers	68,951	438,034
Total current liabilities	15,089,024	4,355,861
Long-term Debt	477,254	372,558
Net Pension Liability	135,344	-
Total liabilities	15,701,622	4,728,419
Net Position		
Net investment in capital assets	6,433,047	3,789,546
Unrestricted	6,589,551	6,637,875
Total net position	13,022,598	10,427,421
Total liabilities and net position	$ 28,724,220	$ 15,155,840

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2015 and 2014

	2015	2014
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2015 - $7,434,000, 2014 - $9,419,000	$ 22,118,675	$ 22,098,328
Nursing home resident revenue, net of provision for uncollectible accounts; 2015 - $445,000	44,789,016	-
Other	658,550	642,487
Total operating revenues	67,566,241	22,740,815
Operating Expenses		
Salaries and wages	9,483,984	8,732,811
Employee benefits	3,079,659	2,819,291
Purchased services and professional fees	5,790,273	5,008,624
Insurance	83,245	48,829
Supplies and other	5,071,446	4,923,860
Nursing home expenses	43,684,866	-
Depreciation and amortization	925,920	964,776
Total operating expenses	68,119,393	22,498,191
Operating Income (Loss)	(553,152)	242,624
Nonoperating Revenues (Expenses)		
Noncapital grants and contributions	-	7,840
Investment income	1,245	1,234
Interest expense	(43,727)	(29,580)
Private Upper Payment Limit expense	(2,434,521)	(1,209,604)
On-behalf of payments	3,123,679	2,380,910
Total nonoperating revenues	646,676	1,150,800
Excess of Revenues Over Expenses Before Grants for Property and Equipment	93,524	1,393,424
Grants for Property and Equipment	1,740,236	321,870
Increase in Net Position	1,833,760	1,715,294
Net Position, Beginning of Year, as Previously Reported	10,427,421	8,712,127
Adjustment for Adoption of New Accounting Standard (Note 1)	761,417	-
Net Position, Beginning of Year, as Restated	11,188,838	8,712,127
Net Position, End of Year	$ 13,022,598	$ 10,427,421

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Statements of Cash Flows
Years Ended December 31, 2015 and 2014

	2015	2014
Operating Activities		
Receipts from and on-behalf of patients	$ 58,014,144	$ 21,355,221
Payments to suppliers and contractors	(45,244,767)	(6,864,805)
Payments to employees	(12,661,606)	(11,482,187)
Other receipts, net	361,953	642,487
Net cash provided by operating activities	469,724	3,650,716
Noncapital Financing Activities		
Noncapital grants and contributions	-	7,840
Private Upper Payment Limit program payments	(1,679,501)	(2,452,508)
Proceeds from issuance of note payable	2,881,759	-
Net cash provided by (used in) noncapital financing activities	1,202,258	(2,444,668)
Capital and Related Financing Activities		
Grants for property and equipment	1,740,236	321,870
Principal paid on long-term debt	(340,226)	(348,309)
Interest paid on long-term debt	(43,727)	(29,580)
Purchase of capital assets	(3,229,195)	(857,241)
Net cash used in capital and related financing activities	(1,872,912)	(913,260)
Investing Activity		
Interest on investments	1,245	1,234
Net cash provided by investing activity	1,245	1,234
Increase (Decrease) in Cash	(199,685)	294,022
Cash, Beginning of Year	4,275,602	3,981,580
Cash, End of Year	$ 4,075,917	$ 4,275,602

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Statements of Cash Flows (Continued)
Years Ended December 31, 2015 and 2014

	2015	2014
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating income (loss)	$ (553,152)	$ 242,624
Depreciation and amortization	925,920	964,776
Provision for uncollectible accounts	7,434,000	9,419,000
On-behalf of payments	3,123,679	2,380,910
Changes in operating assets and liabilities:		
Patients accounts receivable, net	(12,935,144)	(9,447,619)
Estimated amounts due from and to third-party payers	(369,083)	664,137
Accounts payable and accrued expenses	7,009,613	300,205
Other assets and liabilities	(4,166,109)	(873,317)
Net cash provided by operating activities	$ 469,724	$ 3,650,716
Supplemental Cash Flows Information		
Capital lease obligation incurred for capital assets	$ 458,000	$ 467,697
Capital asset acquisitions included in accounts payable and accrued expenses	442,776	-

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 and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Medical Center first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred 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 fair value at the date of donation if acquired by gift. Depreciation is computed using the straight-line method over the estimated useful life of each asset. Assets under capital lease obligations and leasehold improvements are depreciated over the shorter of the lease term, or their respective estimated useful lives. The following estimated useful lives are being used by the Medical Center.

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

Deferred Outflows of Resources

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

Compensated Absences

The Medical Center policies permit most employees to accumulate vacation that may be realized as paid time off or, in limited circumstances, as a cash payment. Expense and the related liability are recognized as vacation benefits are earned whether the employee is expected to realize the benefit as time off or in cash. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as social security and Medicare taxes computed using rates in effect at that date. These amounts are included in accrued expenses on the balance sheets.

Net Position

Net position of the Medical Center is classified in three components. Net investment in capital assets consists of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted-expendable net position is made up of noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Medical Center. Unrestricted net position is the remaining net position that does not meet the definition of net investment in capital assets or restricted-expendable net position.

Net Patient Service Revenue

The Medical Center has agreements with third-party payers that provide for payments to the Medical Center at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments and a provision for uncollectible accounts. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered, and such estimated amounts are revised in future periods as adjustments become known.

Grants and Contributions

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

Charity Care

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

Electronic Health Records (EHR) Incentive Program

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

The Medical Center has recognized the incentive payment revenue received for qualified EHR technology expenditures during 2015, which was the period during which management was reasonably assured meaningful use was achieved and the earnings process was complete for year four. Management believes the incentive payments reflect a change in how "allowable costs" are determined in paying CAHs for providing to Medicare beneficiaries. For the years ended December 31, 2015 and 2014, the Medical Center recorded revenues of approximately $81,000 and $179,000, respectively, which is included in other revenues in the accompanying statements of revenues, expenses and changes in net position.

Income Taxes

As an essential government function of the County, the Medical Center is generally exempt from federal and state income taxes under Section 115 of the Internal Revenue Code and a similar provision of state law. However, the Medical Center is subject to federal income tax on any unrelated business taxable income.

Reclassifications

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

Change in Accounting Principles

In June 2012, the Governmental Accounting Standards Board (GASB) issued GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27* and in November 2013 issued GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – an amendment of GASB Statement No. 68*. In addition to making changes to how annual pension expense is to be calculated for defined benefit pension plans, the standards also require that governmental entities record an asset or liability in their financial statements that is equal to the net pension asset or liability. Historically, governmental entities have only been required to record a liability, if any, for the difference between annual pension cost (APC) and the amount of APC contributed to the plan. Restatement of the 2014 financial statements is not practical because prior year information calculated under the provisions of GASB 68 and GASB 71 is not available. The Medical Center has reported the cumulative effect of applying GASB 68 and GASB 71 as a restatement of net position as of January 1, 2015. This restatement increased beginning net position by $761,417.

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 53 percent and 56 percent of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2015 and 2014, 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. The demonstration is effective from December 12, 2011 to September 30, 2016, and has a material impact on the Medical Center's Medicaid funding. On May 2, 2016, the Texas Health and Human Services Commission announced CMS has agreed to extend the Waiver through December 2017 at current funding levels. During the extension period, Texas Health and Human Services Commission and CMS will continue negotiating a longer term extension. Total funding received through the Texas Medicaid supplemental funding programs was approximately $2,101,000 and $2,304,000 for the years ended December 31, 2015 and 2014, respectively.

The Medical Center has elected to fund certain elements of the State of Texas' private UPL program. During the years ended December 31, 2015 and 2014, the Medical Center recognized funding of approximately $2,435,000 and $1,210,000, respectively.

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

Nursing Home Revenue

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

During 2015, all five facilities participated in the Texas Minimum Payment Amounts to Qualified Nursing Facilities Program, (MPAP) which allows these facilities to receive Medicare Part A reimbursement rates for their Medicaid residents. In order to receive this additional funding, the Medical Center is required to make quarterly IGT payments to the state of Texas that are equal to approximately 42 percent of the additional expected reimbursement. Revenues recognized under this program were approximately $3,755,000 for the year ended December 31, 2015, and expenses were $1,797,000 for the year ended December 31, 2015, and are included in nursing home resident revenue and nursing home expenses, respectively.

MPAP is subject to review and scrutiny by both the Texas Legislature and CMS and the programs could be modified or terminated based on new legislation or regulation in future periods.

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, 2015 and 2014, 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:

	2015	2014
Carrying value:		
Deposits	$ 4,575,917	$ 4,775,602
Included in the following balance sheet captions:		
Cash	$ 4,075,917	$ 4,275,602
Short-term investments	500,000	500,000
	$ 4,575,917	$ 4,775,602

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 consisted of:

	2015	2014
Medicare	$ 1,198,081	$ 945,635
Medicaid	502,664	395,503
Other third-party payers	1,503,655	1,213,934
Patients	3,348,265	3,769,575
	6,552,665	6,324,647
Less allowance for uncollectible accounts	3,802,000	3,865,000
	$ 2,750,665	$ 2,459,647

Nursing home resident accounts receivable at December 31 consisted of:

	2015	2014
Medicare	$ 2,719,992	$ -
Medicaid	1,202,867	-
Other third-party payers	694,930	-
Patients	1,017,337	-
	5,635,126	0
Less allowance for uncollectible accounts	425,000	-
	$ 5,210,126	$ 0

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was as follows.

	2015				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets:					
Land	$ 320,593	$ -	$ -	$ -	$ 320,593
Buildings and improvements	9,529,483	14,878	-	-	9,544,361
Equipment	12,698,251	214,087	-	-	12,912,338
Leased assets	2,120,397	458,000	-	-	2,578,397
Construction in progress	353,068	3,443,006	-	-	3,796,074
Total capital assets	25,021,792	4,129,971	0	0	29,151,763
Less accumulated depreciation:					
Buildings and improvements	(7,989,725)	(145,002)	-	-	(8,134,727)
Equipment	(11,076,350)	(475,909)	-	-	(11,552,259)
Leased assets	(1,541,059)	(305,009)	-	-	(1,846,068)
Total accumulated depreciation	(20,607,134)	(925,920)	0	0	(21,533,054)
Capital assets, net	$ 4,414,658	$ 3,204,051	$ 0	$ 0	$ 7,618,709

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

Note 6: Notes Payable

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

	Beginning Balance	Additions	Deductions	Ending Balance
Notes payable:				
Noninterest-bearing note - 2015	$ 500,000	$ 2,881,759	$ 0	$ 3,381,759
Noninterest-bearing note - 2014	$ 500,000	$ 0	$ 0	$ 500,000

The Medical Center has 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, 2015 and 2014, $1,475,000 and $500,000, respectively, had been drawn on this line of credit.

The Medical Center has a noninterest-bearing line of credit payable on demand with the County in the amount of $2,000,000 for the purpose of the nursing home UPL program. As of December 31, 2015, $1,906,759 had been drawn on this line of credit.

Note 7: Accounts Payable and Accrued Expenses

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

	2015	2014
Payable to suppliers and contractors	$ 1,059,495	$ 596,277
Payable to employees (including payroll taxes and benefits)	1,143,116	1,241,079
Payable to nursing home management company	6,662,726	-
Other	2,507,345	1,327,917
	$ 11,372,682	$ 3,165,273

Note 8: Medical Malpractice Claims

The Medical Center is a unit of government covered by the *Texas Tort Claims Act*, which, by statute, limits its liability to $100,000 per individual and $300,000 in the aggregate. These limits coincide with the malpractice insurance coverage, which is purchased by the Medical Center under a claims-made policy on a fixed premium basis. Accounting principles generally accepted in the United States of America require a health care provider to accrue the expense of its share of malpractice claims costs, if any, for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate costs of the incidents. Based upon the Medical Center's claims experience, no such accrual has been made. It is reasonably possible that this estimate could change materially in the near term.

Note 9: Employee Health Claims

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

Activity in the Medical Center's accrued employee health claims liability during 2015 and 2014, which is included in accrued expenses in the accompanying balance sheets, is summarized as follows:

	2015	2014
Balance, beginning of year	$ 208,054	$ 269,054
Current year claims incurred and changes in estimates for claims incurred in prior years	1,620,284	1,243,415
Claims and expenses paid	(1,548,338)	(1,304,415)
Balance, end of year	$ 280,000	$ 208,054

Note 10: Long-term Obligations

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

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term obligations:					
Capital lease obligations - 2015	$ 625,112	$ 458,000	$ (340,226)	$ 742,886	$ 265,632
Capital lease obligations - 2014	$ 505,724	$ 467,697	$ (348,309)	$ 625,112	$ 252,554

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, 2015 and 2014, totaled $2,498,536 and $2,120,397, respectively, net of accumulated depreciation of $1,846,068 and $1,541,059, 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, 2015.

Years Ending December 31,	Total to be Paid	Principal	Interest
2016	$ 301,362	$ 265,632	$ 35,730
2017	222,775	201,510	21,265
2018	161,633	151,112	10,521
2019	87,366	84,581	2,785
2020	40,636	40,051	585
	$ 813,772	$ 742,886	$ 70,886

Note 11: Charity Care

The costs of charity care provided under the Medical Center's charity care policy were approximately $670,000 and $568,000 for 2015 and 2014, 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.

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, 2014 measurement date are:

Inactive employees or beneficiaries currently receiving benefits	85
Inactive employees entitled to but not yet receiving benefits	297
Active employees	230
	612

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 8.02 percent, or $783,080, and 8.22 percent, or $708,827, for calendar years 2015 and 2014, respectively. The contribution rate payable by the employee members is 7.00 percent, as adopted by the governing body of the Medical Center. The employee contribution rate and the employer contribution rate may be changed by the governing body of the Medical Center within the options available in the TCDRS Act.

Net Pension Liability

The Medical Center's net pension liability as of December 31, 2015, was measured as of December 31, 2014, 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, 2014, 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	8.0%, 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.

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

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

Discount Rate

The discount rate used to measure the total pension asset was 8.1 percent at December 31, 2014. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that 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 year ended December 31, 2015, are:

	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at beginning of year	$ 30,702,031	$ 30,754,621	$ (52,590)
Changes for the year:			
Service cost	1,060,724	-	1,060,724
Interest on total pension liability	2,483,007	-	2,483,007
Effect of economic/demographic gains or losses	94,066	-	94,066
Refund of contributions	(68,471)	(68,471)	-
Benefit payments	(1,089,383)	(1,089,383)	-
Administrative expenses	-	(24,573)	24,573
Member contributions	-	620,401	(620,401)
Net investment income	-	2,098,712	(2,098,712)
Employer contributions	-	708,827	(708,827)
Other changes	-	46,496	(46,496)
Net changes	2,479,943	2,292,009	187,934
Balances at end of year	$ 33,181,974	$ 33,046,630	$ 135,344

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%
District's net pension (asset) liability	$ 4,622,229	$ 135,344	$ (3,505,289)

Pension Expense and Deferred Outflows of Resources

For the year ended December 31, 2015, the Medical Center recognized pension expense of $486,483. At December 31, 2015, the District reported deferred outflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources
Differences between expected and actual experience	$ 70,549
Net difference between projected and actual earnings on plan investments	339,729
Contributions subsequent to the measurement date	783,080
	$ 1,193,358

At December 31, 2015, the Medical Center reported $783,080 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, 2016. Other amounts reported as deferred outflows of resources at December 31, 2015, related to pensions will be recognized in pension expense as follows:

2016	$ 108,449
2017	108,449
2018	108,449
2019	84,931
	$ 410,278

Funding Status and Funding Progress

Prior to adoption of GASB 68, and as of December 31, 2013, the plan was 92.35 percent funded. The actuarial accrued liability for benefits was $23,499,550 and the actuarial value of assets was $21,700,727, resulting in an unfunded actuarial accrued liability (UAAL) of $1,798,823. The covered payroll (annual payroll of active employees covered by the plan) was $8,147,521 and the ratio of the UAAL to the covered payroll was 22.08 percent.

Annual Pension Cost (APC)

For the Medical Center's year ended December 31, 2014, the APC for the TCDRS plan for its employees was $708,827, and the actual contributions were $708,827. The required contributions for 2014 were determined based on the results of actuarial valuations as of December 31, 2013, using the entry age normal actuarial cost method. The actuarial assumptions included (a) an 8.0 percent investment rate of return (net of administrative expenses) and (b) projected salary increase of 4.9 percent per year. At December 31, 2014, both (a) and (b) included an inflation component of 3.0 percent. The actuarial valuation of plan assets was determined using a ten-year smoothed value and a fund value. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period at December 31, 2014, was 20 years.

Three-year Trend Information

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

Pension Plan Fiduciary Net Position

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

Note 13: Related-party Transactions

The Medical Center collaborates with the Service Organization of Houston (the Service Organization), a nonprofit corporation, to access Medicaid supplemental payments through the State of Texas' private UPL program. The Medical Center has one representative who serves on the Board of Directors of the Service Organization. The Service Organization funded certain health care services on behalf of the Medical Center in the amounts of approximately $3,124,000 and $2,381,000 during the years ended December 31, 2015 and 2014, 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

		2015
Total Pension Liability		
Service cost	$	1,060,724
Interest on total pension liability		2,483,007
Effect of plan changes		-
Effect of assumption changes or inputs		-
Effect of economic and demographic (gains) losses		94,066
Benefit payments, including refunds of employee contributions		(1,157,854)
Net Change in Total Pension Liability		2,479,943
Total Pension Liability - Beginning		30,702,031
Total Pension Liability - Ending (a)	$	33,181,974
Plan Fiduciary Net Position		
Contributions-employer	$	708,827
Contributions-employee		620,401
Net investment income		2,098,712
Benefit payments, including refunds of employee contributions		(1,157,854)
Administrative expense		(24,573)
Other		46,496
Net Change in Plan Fiduciary Net Position		2,292,009
Plan Fiduciary Net Position - Beginning		30,754,621
Plan Fiduciary Net Position - Ending (b)	$	33,046,630
Medical Center's Net Pension Liability - Ending (a)-(b)	$	135,344
Plan Fiduciary Net Position as a Percentage of the Total Pension Asset		99.59%
Covered-employee Payroll	$	8,623,215
Medical Center's Net Pension Asset as a Percentage of Covered-employee Payroll		1.57%

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

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

Year Ending December 31,	Actuarially Determined Contribution	Contributions in Relation to the Actuarially Determined Contribution	Contribution Deficiency (Excess)	Covered-employee Payroll *(1)*	Contributions as a Percentage of Covered-employee Payroll
2015	$ 783,080	$ 783,080	$ -	$ 9,764,090	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	Closed
Remaining amortization period	20 years
Asset valuation method	5-year smoothed non-asymptotic market
Inflation	3%
Salary increases	3.5%
Investment rate of return	8.0%, net of pension plan investment expense, including inflation
Retirement age	60
Mortality	RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both with the projection scale AA

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

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Schedule of Funding Progress – Pension Plan
Year Ended December 31, 2014

Analysis of Funding Progress

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