Memorial Medical Center
A Component Unit of Calhoun County, Texas

Independent Auditor's Report and Financial Statements

December 31, 2016 and 2015

BKD LLP
CPAs & Advisors

Memorial Medical Center
A Component Unit of Calhoun County, Texas
December 31, 2016 and 2015

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, 2016 and 2015, 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, 2016 and 2015, 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 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
June 30, 2017

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Management's Discussion and Analysis
December 31, 2016 and 2015

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, 2016 and 2015. 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 January 2016, the Medical Center expanded the operations of the Memorial Medical Center Clinic in a new facility.
- 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) through August 31, 2016.
- Cash and investments decreased in 2016 by $407,000, or 9 percent, and decreased in 2015 by $200,000, or 4 percent.
- The Medical Center's net position increased in 2016 by $971,000, or 7 percent, and increased in 2015 by $1,834,000, or 16 percent, after considering the effects of the adoption of the change in accounting principle related to the pension plan.
- The Medical Center reported an operating loss in 2016 of $1,106,000 and in 2015 of $553,000. The operating loss in 2016 increased by $552,000, or 100 percent, from the operating loss reported in 2015. The operating loss in 2015 increased by $796,000, or 328 percent, from the operating income reported in 2014.
- Net nonoperating revenues increased by $1,405,000 in 2016 compared to 2015, and decreased by $504,000 in 2015 compared to 2014.

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 $971,000, or 7 percent, in 2016 and increased by $2,595,000, or 25 percent, in 2015, as shown in Table 1. The increase in 2015 includes the impact of the change in accounting principle related to the pension plan of $761,000.

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

	2016	2015	2014
Assets and Deferred Outflows of Resources			
Assets			
Patient accounts receivable, net	$ 2,256,216	$ 2,750,665	$ 2,459,647
Nursing home resident receivable, net	4,820,988	5,210,126	-
Other current assets	10,727,260	11,951,362	8,281,535
Capital assets, net	7,010,054	7,705,679	4,414,658
Total assets	24,814,518	27,617,832	15,155,840
Deferred Outflows of Resources	3,742,679	1,193,358	-
Total assets and deferred outflows of resources	$ 28,557,197	$ 28,811,190	$ 15,155,840

	2016	2015	2014
Liabilities, Deferred Inflows of Resources and Net Position			
Liabilities			
Current liabilities	$ 11,330,936	$ 15,175,994	$ 4,355,861
Long-term debt	275,744	477,254	372,558
Net pension liability	2,803,027	135,344	-
Total liabilities	14,409,707	15,788,592	4,728,419
Deferred Inflows of Resources	154,280	-	-
Net Position			
Net investment in capital assets	6,532,800	6,433,047	3,789,546
Unrestricted	7,460,410	6,589,551	6,637,875
Total net position	13,993,210	13,022,598	10,427,421
Total liabilities, deferred inflows of resources and net position	$ 28,557,197	$ 28,811,190	$ 15,155,840

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

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.

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

In 2016, the Medical Center's net position increased by $971,000 as shown in Table 2. The Medical Center's change in net position increased by $1,834,000 in 2015, or 16 percent, after considering the effects of the adoption of the change in accounting principle related to the pension plan and increased by $1,715,000 in 2014, or 20 percent.

Table 2: Operating Results and Changes in Net Position

	2016	2015	2014
Operating Revenues			
Net patient service revenue	$ 23,844,072	$ 22,128,203	$ 22,098,328
Nursing home revenue	50,125,184	44,789,016	-
Other	539,467	658,550	642,487
Total operating revenues	74,508,723	67,575,769	22,740,815

	2016	2015	2014
Operating Expenses			
Salaries, wages and employee benefits	$ 13,767,235	$ 12,563,643	$ 11,552,102
Purchased services and professional fees	7,286,015	5,790,273	5,008,624
Nursing home expenses	48,143,452	43,684,866	-
Depreciation and amortization	1,051,793	925,920	964,776
Other	5,365,742	5,164,219	4,972,689
Total operating expenses	75,614,237	68,128,921	22,498,191
Operating Income (Loss)	(1,105,514)	(553,152)	242,624
Nonoperating Revenues (Expenses)			
Noncapital grants and contributions	7,696	-	7,840
Investment income	5,388	1,245	1,234
Interest expense	(35,729)	(43,727)	(29,580)
Other	2,074,771	689,158	1,171,306
Total nonoperating revenues	2,052,126	646,676	1,150,800
Grants for Property and Equipment	24,000	1,740,236	321,870
Increase in Net Position	$ 970,612	$ 1,833,760	$ 1,715,294

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 2016 and 2015. The Medical Center was formed and is operated primarily to serve residents of Calhoun County (the County) and the surrounding area, accepting all patients regardless of their ability to pay.

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

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.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of noncapital grants and contributions to the Medical Center, investment income, interest expense, private Upper Payment Limit (UPL) expense and on-behalf of payments. The Medical Center recognized private UPL expense of $2,586,000 and on-behalf of payments of $4,661,000 during 2016. The Medical Center recognized private UPL expense of $2,435,000 and on-behalf of payments of $3,124,000 during 2015. Between 2016 and 2015, private UPL expense increased by $152,000 and on-behalf of payments increased by $1,537,000.

The Medical Center's Cash Flows

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

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.

Capital Asset and Debt Administration

Capital Assets

At the end of 2016 and 2015, the Medical Center had $7,010,000 and $7,706,000, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements.

Debt

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

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.

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, 2016 and 2015

	2016	2015
Assets and Deferred Outflows of Resources		
Current Assets		
Cash	$ 3,668,930	$ 4,075,917
Short-term investments	500,000	500,000
Patient accounts receivable, net of allowance; 2016 - $5,052,000, 2015 - $3,802,000	2,256,216	2,750,665
Nursing home resident accounts receivable, net of allowance; 2016 - $828,000, 2015 - $425,000	4,820,988	5,210,126
Estimated amounts due from third-party payers	143,851	-
Supplies	780,989	837,079
Other receivables and prepaid expenses	5,633,490	6,538,366
Total current assets	17,804,464	19,912,153
Capital Assets, Net	7,010,054	7,705,679
Total assets	24,814,518	27,617,832
Deferred Outflows of Resources Related to Pension	3,742,679	1,193,358
Total assets and deferred outflows of resources	$ 28,557,197	$ 28,811,190

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Balance Sheets (Continued)
December 31, 2016 and 2015

	2016	2015
Liabilities, Deferred Inflows of Resources and Net Position		
Current Liabilities		
Current maturities of long-term debt	$ 201,510	$ 265,632
Notes payable	1,475,000	3,381,759
Accounts payable	1,054,656	1,098,099
Accounts payable - nursing homes	6,462,039	6,662,726
Accrued expenses	2,137,731	3,698,827
Estimated amounts due to third-party payers	-	68,951
Total current liabilities	11,330,936	15,175,994
Long-term Debt	275,744	477,254
Net Pension Liability	2,803,027	135,344
Total liabilities	14,409,707	15,788,592
Deferred Inflows of Resources Related to Pension	154,280	-
Net Position		
Net investment in capital assets	6,532,800	6,433,047
Unrestricted	7,460,410	6,589,551
Total net position	13,993,210	13,022,598
Total liabilities, deferred inflows of resources and net position	$ 28,557,197	$ 28,811,190

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Statements of Revenues, Expenses and Changes in Net Position
Years Ended December 31, 2016 and 2015

	2016	2015
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2016 - $8,114,000, 2015 - $7,434,000	$ 23,844,072	$ 22,128,203
Nursing home resident revenue, net of provision for uncollectible accounts; 2016 - $500,000, 2015 - $445,000	50,125,184	44,789,016
Other	539,467	658,550
Total operating revenues	74,508,723	67,575,769
Operating Expenses		
Salaries and wages	10,292,416	9,483,984
Employee benefits	3,474,819	3,079,659
Purchased services and professional fees	7,286,015	5,790,273
Insurance	65,329	83,245
Supplies and other	5,300,413	5,080,974
Nursing home expenses	48,143,452	43,684,866
Depreciation and amortization	1,051,793	925,920
Total operating expenses	75,614,237	68,128,921
Operating Loss	(1,105,514)	(553,152)
Nonoperating Revenues (Expenses)		
Noncapital grants and contributions	7,696	-
Investment income	5,388	1,245
Interest expense	(35,729)	(43,727)
Private Upper Payment Limit expense	(2,586,035)	(2,434,521)
On-behalf of payments	4,660,806	3,123,679
Total nonoperating revenues	2,052,126	646,676
Excess of Revenues Over Expenses Before Grants for Property and Equipment	946,612	93,524
Grants for Property and Equipment	24,000	1,740,236
Increase in Net Position	970,612	1,833,760
Net Position, Beginning of Year	13,022,598	11,188,838
Net Position, End of Year	$ 13,993,210	$ 13,022,598

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Statements of Cash Flows
Years Ended December 31, 2016 and 2015

	2016	2015
Operating Activities		
Receipts from and on-behalf of patients	$ 78,096,636	$ 58,014,144
Payments to suppliers and contractors	(59,159,846)	(45,244,767)
Payments to employees	(14,150,885)	(12,661,606)
Other receipts, net	812,109	361,953
Net cash provided by operating activities	5,598,014	469,724
Noncapital Financing Activities		
Noncapital grants and contributions	7,696	-
Private Upper Payment Limit program payments	(3,477,797)	(1,679,501)
Principal paid on notes payable	(1,906,759)	-
Proceeds from issuance of note payable	-	2,881,759
Net cash provided by (used in) noncapital financing activities	(5,376,860)	1,202,258
Capital and Related Financing Activities		
Grants for property and equipment	24,000	1,740,236
Principal paid on long-term debt	(265,632)	(340,226)
Interest paid on long-term debt	(35,729)	(43,727)
Purchase of capital assets	(356,168)	(3,229,195)
Net cash used in capital and related financing activities	(633,529)	(1,872,912)
Investing Activity		
Interest on investments	5,388	1,245
Net cash provided by investing activity	5,388	1,245
Decrease in Cash	(406,987)	(199,685)
Cash, Beginning of Year	4,075,917	4,275,602
Cash, End of Year	$ 3,668,930	$ 4,075,917

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Statements of Cash Flows (Continued)
Years Ended December 31, 2016 and 2015

	2016	2015
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating loss	$ (1,105,514)	$ (553,152)
Depreciation and amortization	1,051,793	925,920
Provision for uncollectible accounts	8,263,000	7,879,000
On-behalf of payments	4,660,806	3,123,679
Changes in operating assets and liabilities:		
Patients accounts receivable, net	(7,379,413)	(13,380,144)
Estimated amounts due from and to third-party payers	(212,802)	(369,083)
Accounts payable and accrued expenses	(913,464)	7,009,613
Other assets and liabilities	1,233,608	(4,166,109)
Net cash provided by operating activities	$ 5,598,014	$ 469,724
Supplemental Cash Flows Information		
Capital lease obligation incurred for capital assets	$ -	$ 458,000
Capital asset acquisitions included in accounts payable and accrued expenses	-	529,746

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

Nature of Operations and Reporting Entity

Memorial Medical Center (the Medical Center) is an acute care critical access hospital (CAH) located in Port Lavaca, Texas. The Medical Center is a component unit of Calhoun County (the County) and the Board of County Commissioners appoints members to the Board of Managers (the Board) of the Medical Center. The Medical Center primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the County's area and, beginning in 2015, providing care to nursing home residents.

Basis of Accounting and Presentation

The financial statements of the Medical Center have been prepared on the accrual basis of accounting using the economic resources measurement focus. Revenues, expenses, gains, losses, assets, liabilities, and deferred inflows and outflows of resources from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those from government-mandated nonexchange transactions are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program-specific, government-mandated nonexchange transactions. Government-mandated nonexchange transactions that are not program specific, investment income and interest on capital assets-related debt are included in nonoperating revenues and expenses. The Medical Center first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net position are available.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, deferred inflows and outflows of resources, and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Risk Management

The Medical Center is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; medical malpractice; and employee health, dental and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

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

Investments and Investment Income

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

Patient Accounts Receivable

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

Supplies

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

Capital Assets

Capital assets are recorded at cost at the date of acquisition, or 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

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

Compensated Absences

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

Defined Benefit Pension Plan

The Medical Center participates in a cost-sharing multiple-employer defined benefit pension plan (the Plan) operated by the Texas County and District Retirement System (TCDRS). For purposes of measuring the net pension liability (asset), deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the Plan and additions to/deductions from the Plan's fiduciary net position have been determined on the same basis as they are reported by the Plan. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

Deferred Inflows of Resources

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

Net Position

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

Net Patient Service Revenue

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

Grants and Contributions

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

Charity Care

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

Income Taxes

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

Reclassifications

Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation. The reclassifications had no effect on the changes in financial position.

Note 2: Net Patient Service Revenue and Nursing Home Revenue

Net Patient Service Revenue

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

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

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

Approximately 55 percent and 53 percent of net patient service revenue is from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2016 and 2015, 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 (HHSC) announced the Centers for Medicare and Medicaid Services (CMS) agreed to extend the Waiver through December 2017 at current funding levels. During the extension period, HHSC and CMS will continue negotiating a longer term extension. Total funding received through the Texas Medicaid supplemental funding programs was approximately $2,415,000 and $2,101,000 for the years ended December 31, 2016 and 2015, respectively.

The Medical Center has elected to fund certain elements of the State of Texas' private Upper Payment Limit (UPL) program. During the years ended December 31, 2016 and 2015, the Medical Center recognized funding of approximately $2,586,000 and $2,435,000, 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 also provide all accounting functions for the facilities, including the billing and collection services. All patient revenue from the facilities is paid to the

Medical Center and recorded as such by the Medical Center. The Medical Center transfers cash from these patient revenues to the managers so the managers can pay all facility related costs on behalf of the Medical Center. In addition, the Medical Center utilizes the nursing home cash receipts to pay a management fee to the manager pursuant to the agreements.

The Medical Center participated in the Texas Minimum Payment Amounts to Qualified Nursing Facilities Program (MPAP) in 2016 and 2015, which allowed 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 Intergovernmental transfer (IGT) payments to the State of Texas that are equal to approximately 42 percent of the additional expected reimbursement. As of December 31, 2016 and 2015, revenues recognized under this program were approximately $6,984,000 and $3,755,000, respectively, and expenses were $3,020,000 and $1,797,000, respectively, and are included in nursing home resident revenue and nursing home expenses, respectively.

In August 2016, CMS prohibited HHSC from continuing MPAP beyond the Texas fiscal year ended August 31, 2016. Although amounts accrued but unpaid under the program for dates of service on or before August 31, 2016, continued to be paid in full to providers, no additional revenue was earned under MPAP for subsequent dates of service. However, HHSC is in the process of developing a new program to replace MPAP, which will allow participating providers to receive additional reimbursement if they either reach a national benchmark level or they make quarterly improvements in up to four predetermined quality measures. HHSC received CMS approval for this quality program (Quality Improvement Payment Program) and the program will begin on September 1, 2017. While it is unknown the actual reimbursement to be received, funding under the new Quality Improvement Payment Program is expected to be significantly less than the funding received under the MPAP.

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, 2016 and 2015, 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:

	2016	2015
Carrying value:		
Deposits	$ 4,168,930	$ 4,575,917

Included in the following balance sheet captions:

	2016	2015
Cash	$ 3,668,930	$ 4,075,917
Short-term investments	500,000	500,000
	$ 4,168,930	$ 4,575,917

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, 2016 and 2015, consisted of:

	2016	2015
Medicare	$ 845,678	$ 1,198,081
Medicaid	517,097	502,664
Other third-party payers	873,423	1,503,655
Patients	5,072,018	3,348,265
	7,308,216	6,552,665
Less allowance for uncollectible accounts	5,052,000	3,802,000
	$ 2,256,216	$ 2,750,665

Nursing home resident accounts receivable at December 31, 2016 and 2015, consisted of:

	2016	2015
Medicare	$ 2,873,104	$ 2,719,992
Medicaid	792,039	1,202,867
Other third-party payers	668,536	694,930
Patients	1,315,309	1,017,337
	5,648,988	5,635,126
Less allowance for uncollectible accounts	828,000	425,000
	$ 4,820,988	$ 5,210,126

Note 5: Capital Assets

Capital assets activity for the years ended December 31, 2016 and 2015, was as follows.

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

	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	3,529,976	-	-	3,883,044
Total capital assets	25,021,792	4,216,941	0	0	29,238,733
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	$ 3,291,021	$ 0	$ 0	$ 7,705,679

Note 6: Notes Payable

The following is a summary of notes payable transactions for the Medical Center for the years ended December 31, 2016 and 2015:

	Beginning Balance	Additions	Deductions	Ending Balance
Notes payable:				
Noninterest-bearing note - 2016	$ 3,381,759	$ 0	$ (1,906,759)	$ 1,475,000
Noninterest-bearing note - 2015	$ 500,000	$ 2,881,759	$ 0	$ 3,381,759

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, 2016 and 2015, $1,475,000 has 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, 2016 and 2015, $0 and $1,906,759, respectively, 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, 2016 and 2015, consisted of:

	2016	2015
Payable to suppliers and contractors	$ 617,430	$ 1,146,465
Payable to employees (including payroll taxes and benefits)	1,011,229	1,143,116
Accrued IGT payments	1,126,502	2,303,948
Payable to nursing home management company	6,462,039	6,662,726
Other	437,226	203,397
	$ 9,654,426	$ 11,459,652

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 2016 and 2015, which is included in accrued expenses in the accompanying balance sheets, is summarized as follows:

	2016	2015
Balance, beginning of year	$ 280,000	$ 208,054
Current year claims incurred and changes in estimates for claims incurred in prior years	1,453,305	1,620,284
Claims and expenses paid	(1,575,305)	(1,548,338)
Balance, end of year	$ 158,000	$ 280,000

Note 10: Long-term Obligations

The following is a summary of long-term obligation transactions for the Medical Center for the years ended December 31, 2016 and 2015:

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term obligations:					
Capital lease obligations - 2016	$ 742,886	$ 0	$ (265,632)	$ 477,254	$ 201,510
Capital lease obligations - 2015	$ 625,112	$ 458,000	$ (340,226)	$ 742,886	$ 265,632

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, 2016 and 2015, totaled $2,578,397 and $2,578,397, respectively, net of accumulated depreciation of $2,114,324 and $1,846,068, 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, 2016.

Years Ending December 31,	Total to be Paid	Principal	Interest
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
	$ 512,410	$ 477,254	$ 35,156

Note 11: Charity Care

The costs of charity care provided under the Medical Center's charity care policy were approximately $678,000 and $670,000 for 2016 and 2015, 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, 2015 and 2014, measurement date are as follows.

	2015	2014
Inactive employees or beneficiaries currently receiving benefits	91	85
Inactive employees entitled to but not yet receiving benefits	315	297
Active employees	250	230
	656	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 7.62 percent, or $783,931, and 8.02 percent, or $783,080, for calendar years 2016 and 2015, 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, 2016 and 2015, was measured as of December 31, 2015 and 2014, 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, 2015 and 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	8.1%, net of pension plan administrative expenses

Mortality rates for depositing members were based on the RP-2000 Active Employee Mortality Table with a four-year setback for females and a two-year set-forward for males, as appropriate, with adjustments for mortality improvements based on the projection scale AA. Mortality rates for service retirees, beneficiaries and non-depositing members were based on the RP-2000 Combined Mortality Table projected to 2014 with scale AA, with a one-year set back for males and no age adjustments for females. Mortality rates for disabled retires were based on RP-2000 Disabled Mortality Table projected to 2014 with scale AA, with no age adjustment for males and a two-year set forward for females.

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

		2016
Asset Class	**Target Allocation**	**Geometric Real Rate of Return (Expected Minus Inflation)**
Equities:		
U.S. Equities	14.5%	5.45%
International Equities - Developed	10.0%	5.45%
International Equities - Emerging	8.0%	6.45%
Global Equities	1.5%	5.75%
Hedge Funds	25.0%	5.25%
High-Yield Investments:		
High-Yield Bonds	3.0%	5.10%
Opportunistic Credit	2.0%	5.09%
Distressed Debt	3.0%	8.10%
Direct Lending	5.0%	6.40%
Private Equity	14.0%	8.45%
Real Assets:		
REITs	3.0%	4.00%
Private Real Estate Partnerships	5.0%	6.90%
Master Limited Partnerships	3.0%	6.80%
Investment-Grade Bonds	3.0%	1.00%
Total	100.0%	

		2015
Asset Class	**Target Allocation**	**Geometric Real Rate of Return (Expected Minus Inflation)**
Equities:		
U.S. Equities	16.5%	5.35 %
International Equities - Developed	11.0%	5.35 %
International Equities - Emerging	9.0%	6.35 %
Global Equities	1.5%	5.65 %
Hedge Funds	25.0%	5.15 %
High-Yield Investments:		
High-Yield Bonds	3.0%	3.75 %
Opportunistic Credit	5.0%	5.54 %
Distressed Debt	3.0%	6.75 %
Direct Lending	2.0%	5.80 %
Private Equity	12.0%	8.35 %
Real Assets:		
REITs	2.0%	4.00 %
Commodities	2.0%	(0.20)%
Private Real Estate Partnerships	3.0%	7.20 %
Master Limited Partnerships	2.0%	5.30 %
Investment-Grade Bonds	3.0%	0.55 %
Total	100.0%	

Discount Rate

The discount rate used to measure the total pension asset was 8.1 percent at December 31, 2015 and 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 years ended December 31, 2016 and 2015, were as follows:

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

	2015		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (Asset) (a) - (b)
Balances at December 31, 2014	$ 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 December 31, 2015	$ 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%
Medical Center's net pension (asset) liability	$ 7,848,010	$ 2,803,027	$ (1,331,588)

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

For the years ended December 31, 2016 and 2015, the Medical Center recognized pension expense of $1,056,573 and $486,483, respectively. At December 31, 2016 and 2015, the Medical Center reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

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

	2015	
	Deferred Inflows of Resources	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
	$ 0	$ 1,193,358

At December 31, 2016 and 2015, the Medical Center reported $783,931 and $783,080, 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, 2017 and 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources at December 31, 2016, related to pensions, will be recognized in pension expense as follows:

2017	$ 753,278
2018	753,278
2019	729,762
2020	568,150
	$ 2,804,468

Note 13: Related-party Transactions

The Medical Center collaborates with the Service Organization of South East Texas (the Service Organization), a nonprofit corporation, to access Medicaid supplemental payments through the State of Texas' private UPL program. The Medical Center has one representative who serves on the Board of Directors of the Service Organization. The Service Organization funded certain health care services on behalf of the Medical Center in the amounts of approximately $4,661,000 and $3,124,000 during the years ended December 31, 2016 and 2015, 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

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

Note to Schedule:

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

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

Year Ended 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%
2016	783,931	783,931	-	10,292,414	7.6%

Notes to Schedule:

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

Valuation date:
Actuarially determined contribution rates are calculated as of December 31, two years prior to the end of the fiscal year in which the contributions are reported.

Methods and assumptions used to determine contribution rates:

Actuarial cost method	Entry age normal cost
Amortization method	Level percentage of payroll, closed
Remaining amortization period	15.6 years
Asset valuation method	5-year smoothed market
Inflation	3%
Salary increases	Varies by age and service, 4.9% average over career including inflation
Investment rate of return	8.0%, net of pension plan investment expense, including inflation
Retirement age	Employees who are eligible for retirement are assumed to commence receiving benefit payments based on age. The average age at service retirement for recent retirees is 61
Mortality	RP-2000 Active Employee Mortality Table for males with a two-year set-forward and the RP-2000 Active Employee Mortality Table for females with a four-year setback, both with the projection scale AA to 2014 and then projected with 110% of the MP-2014 Ultimate scale thereafter