

MEMORIAL MEDICAL CENTER

(A Component Unit of Calhoun County, Texas)

Port Lavaca, Texas

REPORT OF EXAMINATION

***For the Years Ended
December 31, 2008 and 2007***

PARRISH • MOODY & FIKES, p.c.
Certified Public Accountants
Waco, Texas



MEMORIAL MEDICAL CENTER
(A Component Unit of Calhoun County, Texas)

FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2008 AND 2007

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MEMORIAL MEDICAL CENTER
(A Component Unit of Calhoun County, Texas)

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2008 AND 2007

Our discussion and analysis of Memorial Medical Center (the "*Hospital*") financial performance provides an overview of the Hospital's financial activities for the years ending December 31, 2008 and 2007. Please read it in conjunction with the Hospital's financial statements, which begin on page 6.

Financial Highlights

- The Hospital's net assets increased \$612,123 or 6.6% in 2008 and increased by \$78,251 or 0.9% in 2007.
- During 2008, the Hospital reported an operating loss of \$(274,483) compared to an operating loss of \$(61,448) in 2007. Operating losses in 2008 increased by \$213,035 or 346.7% over the loss reported in 2007. The operating loss in 2007 decreased by \$364,306 or 85.6% under the income reported in 2006.
- Nonoperating revenues (net of expenses) increased by \$696,907 or 498.9% in 2008 compared to 2007. Nonoperating revenues (net of expenses) decreased by \$195,773 or 58.4% in 2007 compared to 2006.

Using this Report of Examination

The Hospital's financial statements consist of three statements – a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Assets; and a Statement of Cash Flows. These financial statements and related notes provide information about the activities of the Hospital, including resources held by the Hospital but restricted for specific purposes by contributors, grantors, or enabling legislation.

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

Our analysis of the Hospital finances begins on page 6. One of the most important questions asked about the Hospital's finances is, "What is the Hospital's financial position and how does it compare to prior years?" The balance sheets and the statements of revenues, expenses, and changes in net assets report information about the Hospital and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. 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 Hospital's net assets and changes in them. One can think of the Hospital's net assets—the difference between assets and liabilities—as one way to measure the Hospital's financial health, or financial position. Over time, increases or decreases in the Hospital's net assets are one indicator of whether its financial health is improving or deteriorating. There are other nonfinancial factors, however, such as the quality of patient care and well trained employees, to assess the overall health of the Hospital.

The Statement of Cash Flows —

The final required statement is the Statement of Cash Flows. The statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing 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 balance during the reporting period?"

MEMORIAL MEDICAL CENTER
(A Component Unit of Calhoun County, Texas)

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED DECEMBER 31, 2008 AND 2007

The Hospital's Net Assets

The Hospital's net assets are the difference between its assets and liabilities reported in the Balance Sheets on page 6. The Hospital's net assets increased \$612,123, or 6.6%, as a result of this year's operations. Net assets increased by \$78,251, or 0.9% from 2006 to 2007 as shown in the following tables.

Table 1: Assets, Liabilities, and Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Assets:			
Current assets	\$ 8,362,323	\$ 7,380,587	\$ 6,413,128
Capital assets, net	<u>3,696,436</u>	<u>3,988,814</u>	<u>4,865,449</u>
Total assets	<u>\$ 12,110,119</u>	<u>\$ 11,369,401</u>	<u>\$ 11,278,577</u>
Liabilities:			
Current liabilities, less current debt	\$ 2,264,879	\$ 1,964,732	\$ 1,725,751
Long-term debt outstanding	<u>-</u>	<u>171,552</u>	<u>397,960</u>
Total liabilities	<u>2,264,879</u>	<u>2,136,284</u>	<u>2,123,711</u>
Net assets:			
Invested in capital assets, net of related debt	3,696,436	3,817,262	4,467,489
Restricted	51,360	-	-
Unrestricted	<u>6,097,444</u>	<u>5,415,855</u>	<u>4,687,377</u>
Total net assets	<u>9,845,240</u>	<u>9,233,117</u>	<u>9,154,866</u>
Total liabilities and net assets	<u>\$ 12,110,119</u>	<u>\$ 11,369,401</u>	<u>\$ 11,278,577</u>

MEMORIAL MEDICAL CENTER
(A Component Unit of Calhoun County, Texas)

MANAGEMENT'S DISCUSSION AND ANALYSIS

YEARS ENDED DECEMBER 31, 2008 AND 2007

The Hospital's Net Assets *(Continued)*

Table 2: Operating Results and Changes in Net Assets

	<u>2008</u>	<u>2007</u>	<u>2006</u>
Unrestricted revenues, gains, and other support			
Net patient service revenue	\$ 22,200,283	\$ 21,865,992	\$ 21,380,340
Other revenue	<u>282,670</u>	<u>195,948</u>	<u>148,903</u>
Total revenue, gains, and other support	<u>22,482,953</u>	<u>22,061,940</u>	<u>21,529,243</u>
Expenses			
Operating expenses	22,030,030	21,089,551	20,727,632
Depreciation and amortization	<u>727,406</u>	<u>1,033,837</u>	<u>1,227,365</u>
Total expenses	<u>22,757,436</u>	<u>22,123,388</u>	<u>21,954,997</u>
Operating income (loss)	<u>(274,483)</u>	<u>(61,448)</u>	<u>(425,754)</u>
Nonoperating revenues (expenses)			
Noncapital grants and contributions	68,312	69,326	138,206
Investment income	79,462	124,659	76,166
Interest expense	(30,074)	(54,286)	(28,966)
Gain (loss) on disposal of assets	<u>718,906</u>	<u>-</u>	<u>150,066</u>
Total nonoperating revenues (expenses)	<u>836,606</u>	<u>139,699</u>	<u>335,472</u>
Excess of revenues over expenses before capital grants, and contributions	562,123	78,251	(90,282)
Capital grants and contributions	<u>50,000</u>	<u>-</u>	<u>84,866</u>
Increase (decrease) in net assets	612,123	78,251	(5,416)
Net assets, beginning of year	<u>9,233,117</u>	<u>9,154,866</u>	<u>9,160,282</u>
Net assets, end of year	<u>\$ 9,845,240</u>	<u>\$ 9,233,117</u>	<u>\$ 9,154,866</u>

MEMORIAL MEDICAL CENTER
(A Component Unit of Calhoun County, Texas)

MANAGEMENT'S DISCUSSION AND ANALYSIS
YEARS ENDED DECEMBER 31, 2008 AND 2007

Operating Income (Loss) —

The first component of the overall change in the Hospital's net assets is its operating income (loss) — generally, the difference between net patient service revenue and the expenses incurred to perform those services. Operating losses increased by \$213,035 in 2008 or 346.7% over the loss reported in 2007. The operating loss in 2007 decreased by \$364,306 or 85.6% under the loss reported in 2006.

The primary component of the increase in operating loss in 2008:

- An increase in contract nursing costs due to unforeseeable circumstances of approximately \$200,000.
- An increase in salaries due to the Board increasing salaries to make them more competitive with the surrounding area hospitals in an effort to retain current staff and recruit unfilled positions, especially in nursing.

The primary components of the decrease in operating loss in 2007:

- An increase in employee health costs of approximately \$600,000.
- Addition of the Revenue Management Department to capture lost charges

Nonoperating Revenues (Expenses) —

The primary components of the increase in nonoperating income in 2008:

- Sale of the Dialysis Center for approximately \$800,000

The Hospital's Cash Flows

The Hospital's cash flows decreased from the prior year primarily due to an increase in operating expenses.

Capital Assets and Debt Administration

Capital Assets - At the end of 2008 and 2007, the Hospital had \$3,696,436 and \$3,988,814, respectively, invested in capital assets, net of accumulated depreciation, as detailed in Note 6 to the financial statements.

Debt Administration - At year-end, the Hospital had \$0 in long-term capital leases versus approximately \$172,000 last year.

Other Hospital obligations include accrued vacation pay and salaries. More detailed information about the Hospital's long-term liabilities is presented in the notes to the financial statements.

Contacting the Hospital's Financial Management

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the Hospital's finances and to show the Hospital's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Hospital's management, at Memorial Medical Center, 815 North Virginia, Port Lavaca, Texas, 77979.

PARRISH • MOODY & FIKES, p.c.

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Memorial Medical Center
Port Lavaca, Texas

We have audited the accompanying balance sheets of Memorial Medical Center (the "Hospital"), a component unit of Calhoun County, Texas, as of December 31, 2008 and 2007, and the related statements of revenues, expenses, and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our 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, 2008 and 2007, and the changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

The accompanying Management's Discussion and Analysis is not a required part of the basic financial statements but is supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Parrish, Moody & Fikes, p.c.

Waco, Texas
June 16, 2009

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MEMORIAL MEDICAL CENTER
(A Component Unit of Calhoun County, Texas)

BALANCE SHEETS

DECEMBER 31, 2008 AND 2007

Assets	2008	2007
Current assets		
Cash and cash equivalents	\$ 1,065,206	\$ 1,314,603
Short-term investments	2,300,000	1,400,000
Assets limited as to use - current	-	287,365
Patient accounts receivable, net	2,938,162	2,843,741
Estimated third-party payor settlements receivable	117,284	555,972
Other current assets	<u>1,941,671</u>	<u>978,906</u>
Total current assets	<u>8,362,323</u>	<u>7,380,587</u>
Cash restricted by contributors and grantors	51,360	-
Capital assets		
Land	32,143	32,143
Depreciable capital assets, net	<u>3,664,293</u>	<u>3,956,671</u>
Total capital assets, net	<u>3,696,436</u>	<u>3,988,814</u>
	<u>\$ 12,110,119</u>	<u>\$ 11,369,401</u>

Liabilities and Net Assets	2008	2007
Current liabilities		
Current portion of long-term debt	\$ -	\$ 171,552
Accounts payable	551,977	601,539
Estimated third-party payor settlements payable	547,267	-
Deferred revenue	-	272,568
Accrued expenses	<u>1,165,635</u>	<u>1,090,625</u>
Total current liabilities	<u>2,264,879</u>	<u>2,136,284</u>
Commitments and contingencies		
Net assets		
Invested in capital assets, net of related debt	3,696,436	3,817,262
Restricted:		
Designated for capital acquisitions	50,000	-
Designated for after school program	1,360	-
Unrestricted	<u>6,097,444</u>	<u>5,415,855</u>
Total net assets	<u>9,845,240</u>	<u>9,233,117</u>
	<u>\$ 12,110,119</u>	<u>\$ 11,369,401</u>

The accompanying notes are an integral part of these financial statements.

MEMORIAL MEDICAL CENTER
(A Component Unit of Calhoun County, Texas)

STATEMENTS OF REVENUES, EXPENSES,
AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

	2008	2007
Unrestricted revenues, gains, and other support		
Net patient service revenue	\$ 22,200,283	\$ 21,865,992
Other revenue	<u>282,670</u>	<u>195,948</u>
Total revenues, gains, and other support	<u>22,482,953</u>	<u>22,061,940</u>
Expenses		
Operating expenses	22,030,030	21,089,551
Depreciation and amortization	<u>727,406</u>	<u>1,033,837</u>
Total expenses	<u>22,757,436</u>	<u>22,123,388</u>
Operating income (loss)	<u>(274,483)</u>	<u>(61,448)</u>
Nonoperating revenues (expenses)		
Noncapital grants and contributions	68,312	69,326
Investment income	79,462	124,659
Interest expense	(30,074)	(54,286)
Gain (loss) on disposal of assets	<u>718,906</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>836,606</u>	<u>139,699</u>
Excess of revenues over expenses before capital grants and contributions	562,123	78,251
Capital grants and contributions	<u>50,000</u>	<u>-</u>
Increase (decrease) in net assets	612,123	78,251
Net assets, beginning of year	<u>9,233,117</u>	<u>9,154,866</u>
Net assets, end of year	<u><u>\$ 9,845,240</u></u>	<u><u>\$ 9,233,117</u></u>

The accompanying notes are an integral part of these financial statements.

MEMORIAL MEDICAL CENTER
(A Component Unit of Calhoun County, Texas)

STATEMENTS OF CASH FLOWS

**FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007**

	2008	2007
Cash flows from operating activities		
Cash received from patients and third-party payors	\$ 22,819,700	\$ 22,205,974
Other receipts and payments from operations, net	282,670	195,948
Cash paid to suppliers	(10,376,020)	(9,469,859)
Cash paid to employees	(9,028,485)	(8,590,031)
Cash paid for employee benefits and payroll taxes	(2,844,387)	(3,122,508)
Net cash provided by (used in) operating activities	<u>853,478</u>	<u>1,219,524</u>
Cash flows from investing activities		
Investment earnings	79,462	124,659
Purchases of investments	(900,000)	-
Proceeds from sale of investments	<u>-</u>	<u>200,000</u>
Net cash provided by (used in) investing activities	<u>(820,538)</u>	<u>324,659</u>
Cash flows from capital and related financing activities		
Capital grants and contributions	50,000	-
Principal payments on long-term debt and notes payable	(171,552)	(226,408)
Interest payments on long-term debt and notes payable	(30,074)	(54,286)
Purchase of capital assets	(435,028)	(157,202)
Net cash provided by (used in) capital and related financing activities	<u>(586,654)</u>	<u>(437,896)</u>
Cash flows from noncapital financing activities		
Noncapital grants and contributions	<u>68,312</u>	<u>69,326</u>
Net cash provided by (used in) noncapital financing activities	<u>68,312</u>	<u>69,326</u>
Net increase (decrease) in cash and cash equivalents	(485,402)	1,175,613
Cash balance, beginning of year	<u>1,601,968</u>	<u>426,355</u>
Cash balance, end of year	<u><u>\$ 1,116,566</u></u>	<u><u>\$ 1,601,968</u></u>

The accompanying notes are an integral part of these financial statements.

MEMORIAL MEDICAL CENTER
(A Component Unit of Calhoun County, Texas)

STATEMENTS OF CASH FLOWS
(Continued)
FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

	2008	2007
Reconciliation of cash and equivalents to the balance sheets		
Cash and equivalents presented under the following titles:		
Cash and cash equivalents	\$ 1,065,206	\$ 1,314,603
Assets limited as to use - current	-	287,365
Restricted by contributors and grantors	51,360	-
	<u>\$ 1,116,566</u>	<u>\$ 1,601,968</u>
Reconciliation of net income to net cash flows from operating activities		
Operating income (loss)	\$ (274,483)	\$ (61,448)
Adjustments to reconcile operating income to net cash flows used in operating activities:		
Depreciation and amortization	727,406	1,033,837
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(94,421)	(323,632)
(Increase) decrease in other assets	(243,859)	(59,260)
Increase (decrease) in accounts payable and accrued expenses	25,448	(33,587)
(Increase) decrease in third-party payor settlements	985,955	391,046
Other prepaids, deferrals, and accruals, net	<u>(272,568)</u>	<u>272,568</u>
Net cash provided by (used in) operating activities	<u>\$ 853,478</u>	<u>\$ 1,219,524</u>

The accompanying notes are an integral part of these financial statements.

MEMORIAL MEDICAL CENTER
(A Component Unit of Calhoun County, Texas)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

The Memorial Medical Center (the “*Hospital*”), located in Port Lavaca, Texas, is a discrete component unit of Calhoun County, Texas (the “*County*”). The Hospital is included in Calhoun County’s financial statements as an enterprise fund. The Board of Trustees is appointed by the Commissioner’s Court of Calhoun County, Texas. The Commissioner’s Court is ultimately responsible for the operation of the Hospital.

Proprietary Fund Accounting

The Hospital utilizes the proprietary fund method of accounting whereby revenue and expenses are recognized on the accrual basis. Substantially all revenue and expenses are subject to accrual.

Accounting Standards

Pursuant to Governmental Accounting Standards Board (GASB) Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, the Hospital has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB).

On January 1, 2003, the Hospital adopted the provisions of Statement No. 34 (Statement 34) of the Governmental Accounting Standards Board (GASB), *Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments*, as amended by GASB Statement 37, *Basic Financial Statements — and Management’s Discussion and Analysis — for State and Local Governments: Omnibus*. Statement 34 established standards for external financial reporting for all state and local governmental entities, which include a balance sheet; a statement of revenue, expenses, and changes in net assets; and a direct method statement of cash flows. Statement 34 requires the classification of net assets into three components — invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

- 1. Invested in capital assets, net of related debt** — This component of net assets consists of capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.
- 2. Restricted** — This component of net assets consists of net assets whose use is restricted through external constraints imposed by creditors (such as through debt covenants), grantors, contributors, laws or regulations of other governments, or by laws through constitutional provisions or enabling legislation.
- 3. Unrestricted** — This component of net assets consists of those assets that do not meet the definition of “restricted” or “invested in capital, net of related debt.”

MEMORIAL MEDICAL CENTER
(A Component Unit of Calhoun County, Texas)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Accounting Standards *(Continued)*

The Hospital also implemented the provisions of GASB Statement 38, *Certain Financial Statement Note Disclosures*, in the accompanying financial statements. The implementation of this statement refined and extended the required disclosures in the financial statements.

GASB Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3*, was issued in March 2004, and was adopted by the Hospital for its basic financial statements as of and for the year ended December 31, 2005. This statement modifies the disclosure requirements for custodial credit risk and requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. These risks include interest rate risk, custodial credit risk, and concentrations of credit risk. While this statement did not affect amounts reported in the financial statements of the Hospital, certain note disclosures have been added and or amended including credit ratings of investments, and weighted average maturity of investments. Implementation of this statement has no effect on net assets.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include certain investments in highly liquid debt instruments with original maturities of three months or less.

The Hospital occasionally invests its surplus operating funds (if any) in money market mutual funds. These funds generally invest in highly liquid U.S. government and agency obligations.

Assets Limited as to Use

Assets limited as to use (if any) primarily include assets held by trustees under indenture agreements and designated assets set aside by the Board of Directors for future capital improvements, over which the Board retains control and may at its discretion subsequently use for other purposes. Amounts required to meet current liabilities of the hospital have been reclassified in the balance sheets at December 31, 2008 and 2007.

MEMORIAL MEDICAL CENTER
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NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Capital Assets

Capital assets consist of property and equipment acquisitions in excess of \$5,000, and are recorded at cost. Depreciation is provided over the estimated useful life of each class of depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Such amortization is included in depreciation and amortization in the financial statements. Interest cost incurred on borrowed funds during the period of construction of capital assets is capitalized as a component of the cost of acquiring those assets.

Gifts of long-lived assets (if any) such as land, building, or equipment are reported as unrestricted support, and are excluded from the excess of revenues over expenses, unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Operating Revenues and Expenses

The statement of revenues, expenses, and changes in net assets distinguishes between operating and non-operating revenues and expenses. Operating revenues result from exchange transactions associated with providing health care services, the Hospital's principal activity. Non-exchange revenues, including taxes, grants, and contributions received for purposes other than capital asset acquisition, are reported as non-operating revenues. Operating expenses are all expenses incurred to provide health care services, other than financing costs.

Net Patient Service Revenue

The Hospital has agreements with third-party payors that provide for payments to the Hospital at amounts different from its established rates. Payment arrangements include prospectively determined rates per discharge, reimbursed costs, discounted charges, and per diem payments. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

MEMORIAL MEDICAL CENTER
(A Component Unit of Calhoun County, Texas)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Charity Care

The Hospital provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than its established rates. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, they are not included in net revenue.

Income Taxes

The Hospital is a political subdivision under the laws of the State of Texas, and therefore, it is exempt from federal income tax pursuant to Section 115 of the Internal Revenue Code. Additionally, pursuant to Section 1.6033-2(g)(6) of the Income Tax Regulations, it is not required to file an information return form 990.

Supplies Inventory

Supplies inventory used in the course of treatment and for internal use are carried at the lower of cost or market using the first-in, first-out (FIFO) method.

Risk Management

The Hospital 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; and employee health, dental, and accidental benefits. Commercial insurance coverage is purchased for claims arising from such matters, except for employee health benefits, for which the Hospital is partially self-insured.

Presentation

Certain prior year amounts may have been reclassified in order to be presented comparatively with the current year classifications.

MEMORIAL MEDICAL CENTER
(A Component Unit of Calhoun County, Texas)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

2. NET PATIENT SERVICE REVENUE

The Hospital was designated as a Critical Access Hospital on August 1, 2004. Medicare and Medicaid inpatient services, certain outpatient services, and defined capital and medical education costs related to beneficiaries are paid based on a cost reimbursement methodology. The Hospital is reimbursed for cost after submission of annual cost reports by the Hospital and audits thereof by the fiscal intermediary. The Hospital's classification of patients under these programs and the appropriateness of their admission are subject to an independent review by a peer review organization under contract with the Hospital.

Subject to the above mentioned review, the retroactive settlements receivable from (payable to) these programs at December 31, 2008 and 2007, were \$(429,983) and \$555,972, respectively. Adjustments to these amounts (if any) will be recognized in the year of determination.

	<u>2008</u>	<u>2007</u>
Current cost recievable from (payable to) Medicare	\$ (471,227)	\$ 370,174
Current cost recievable from (payable to) Medicaid	\$ 77,746	\$ 185,798
Prior year cost receivable from (payable to) Medicare	<u>(36,502)</u>	<u>-</u>
Net third-party settlements	<u>\$ (429,983)</u>	<u>\$ 555,972</u>

Net patient service revenues at December 31, 2008 and 2007 included \$261,862 and \$367,596, respectively, which was paid under the Medicaid Disproportionate Share program. The Hospital expects to receive approximately \$479,000 under this program during state fiscal year 2009.

The Hospital participated in the Medicaid Upper Payment Limit Program, a program designed to benefit rural community hospitals. As part of the program, twenty-five hospitals meeting specific requirements agreed to advance funds which are then matched with federal funding. Again based on specific requirements, all funds are then disbursed to rural community hospitals throughout Texas. In connection with this program, the Hospital received \$93,031 and \$27,956 for the years ended December 31, 2008 and 2007, respectively. Additional advances will be made quarterly for calendar year 2009.

The Hospital's previous reimbursements are also subject to review by federal authorities. These authorities have several initiatives in progress. No material liabilities have been identified to date under these review programs; however, potential exists for future claims. These will be recognized in the year the amounts are determined, if any.

Home health is paid under a PPS method effective with cost reporting periods beginning on or after January 1, 2002.

MEMORIAL MEDICAL CENTER
(A Component Unit of Calhoun County, Texas)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

2. NET PATIENT SERVICE REVENUE *(Continued)*

The Hospital has also entered into agreements with Blue Cross and certain commercial insurance carriers, health maintenance organizations, etc. The bases for payment to the Hospital under these various agreements include prospectively determined rates per discharge, discounts from established charges, and prospectively determined daily rates.

3. ASSETS LIMITED AS TO USE, INVESTMENTS, AND RESTRICTED ASSETS

The components of assets limited and as to use and investments at December 31, 2008 and 2007, are set forth in the following table.

	<u>2008</u>	<u>2007</u>
Assets limited as to use & restricted current		
Designated for indigent care	\$ -	\$ 272,568
Restricted for capital acquisition	50,000	14,797
Restricted for after school program	1,360	-
	<u>\$ 51,360</u>	<u>\$ 287,365</u>
 Short-term investments	 <u>\$ 2,300,000</u>	 <u>\$ 1,400,000</u>

4. UNCOMPENSATED CARE

The Hospital maintains records to identify and monitor the level of charity care it provides. These records include the amount of charges foregone for services and supplies furnished under its charity care policy, the estimated cost of those services and supplies, and equivalent service statistics. Additionally, the Hospital foregoes charges relating to Medicare, Medicaid and other third-party payors. Following is a schedule of patient service revenue at established rates and charges foregone for the years ended December 31, 2008 and 2007:

	<u>2008</u>	<u>2007</u>
Gross patient service revenue	\$47,970,492	\$ 44,109,772
Medicare and Medicaid contractual adjustments	(15,432,982)	(14,135,684)
Bad debts and uncollected accounts	(4,289,629)	(3,455,299)
Other third-party payors	(4,452,804)	(3,162,529)
Charity care	<u>(1,594,794)</u>	<u>(1,490,268)</u>
	<u>\$22,200,283</u>	<u>\$ 21,865,992</u>

MEMORIAL MEDICAL CENTER
(A Component Unit of Calhoun County, Texas)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

5. CONCENTRATIONS OF CREDIT RISK

Accounts Receivable - The Hospital is located in Port Lavaca, Texas. The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payor agreements. The mix of receivables from patients and third-party payors was as follows:

	<u>2008</u>	<u>2007</u>
Medicare	25%	23%
Medicaid	8%	10%
Blue Cross	9%	7%
Other third-party payors	15%	21%
Patients	<u>43%</u>	<u>39%</u>
	<u>100%</u>	<u>100%</u>

	<u>2008</u>	<u>2007</u>
Accounts receivable - GROSS	\$ 7,028,129	\$ 5,598,153
Allowance for bad debts, uncollected accounts and contractual adjustments	<u>(4,089,967)</u>	<u>(2,754,412)</u>
Accounts receivable - NET	<u>\$ 2,938,162</u>	<u>\$ 2,843,741</u>

Bank Accounts – The Hospital is included in the County’s overall cash management program, which requires securities to be pledged to secure amounts exceeding the federal depository limit. The County had FDIC insurance or pledged collateral sufficient to cover all of its bank balances as of December 31, 2008 and 2007, respectively.

The Hospital’s investments may be exposed to the following types of risks:

Credit Risk – Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations.

Custodial Credit Risk – Custodial credit risk is the risk that, in the event of the failure of the counterparty, the Hospital will not be able to recover the value of its investment or collateral securities that are in the possession of an outside party.

MEMORIAL MEDICAL CENTER
(A Component Unit of Calhoun County, Texas)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

5. CONCENTRATIONS OF CREDIT RISK *(Continued)*

Suppliers - The Hospital is dependent on a third party provider of emergency care services and a supplier for primarily all of its pharmaceutical items. Failure to obtain favorable renewal of these contracts or locate alternative suppliers could result in a future disruption of service to patients.

Physicians - The Hospital is dependent on local physicians practicing in its service area to provide admissions and utilize hospital services on an outpatient basis. A decrease in the number of physicians providing these services or change in their utilization patterns may have an adverse effect on hospital operations.

6. CAPITAL ASSETS

A summary of capital asset balances and activity for the years ending December 31, 2008 and 2007, follows:

	Balance <u>12/31/07</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/08</u>	Depreciable <u>Lives</u>
Capital assets not being depreciated:					
Land	\$ 32,143	\$ -	\$ -	\$ 32,143	
Other capital assets:					
Buildings and improvements	8,930,985	7,615	(23,980)	8,914,620	25-50 years
Equipment	12,584,101	437,433	(1,298,945)	11,722,589	5-20 years
Leased assets	<u>1,330,405</u>	<u>-</u>	<u>(1,330,405)</u>	<u>-</u>	3-5 years
Total other capital assets at historical cost	<u>22,845,491</u>	<u>445,048</u>	<u>(2,653,330)</u>	<u>20,637,209</u>	
Less accumulated depreciation for:					
Buildings and improvements	(6,717,986)	(241,866)	-	(6,959,852)	
Equipment	(10,840,429)	(485,540)	1,312,905	(10,013,064)	
Leased assets	<u>(1,330,405)</u>	<u>-</u>	<u>1,330,405</u>	<u>-</u>	
Total accumulated depreciation	<u>(18,888,820)</u>	<u>(727,406)</u>	<u>2,643,310</u>	<u>(16,972,916)</u>	
Other capital assets, net	<u>3,956,671</u>	<u>(282,358)</u>	<u>(10,020)</u>	<u>3,664,293</u>	
Total capital assets, net	<u>\$ 3,988,814</u>	<u>\$ (282,358)</u>	<u>\$ (10,020)</u>	<u>\$ 3,696,436</u>	

MEMORIAL MEDICAL CENTER
(A Component Unit of Calhoun County, Texas)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

6. CAPITAL ASSETS *(Continued)*

	Balance 12/31/06	Increases	Decreases	Balance 12/31/07	Depreciable Lives
Capital assets not being depreciated:					
Land	\$ 32,143	\$ -	\$ -	\$ 32,143	
Other capital assets:					
Buildings and improvements	8,921,125	9,860	-	8,930,985	25-50 years
Equipment	12,436,759	147,342	-	12,584,101	5-20 years
Leased assets	1,330,405	-	-	1,330,405	3-5 years
Total other capital assets at historical cost	<u>22,688,289</u>	<u>157,202</u>	<u>-</u>	<u>22,845,491</u>	
Less accumulated depreciation for:					
Buildings and improvements	(6,388,615)	(329,371)	-	(6,717,986)	
Equipment	(10,400,963)	(439,466)	-	(10,840,429)	
Leased assets	(1,065,405)	(265,000)	-	(1,330,405)	
Total accumulated depreciation	<u>(17,854,983)</u>	<u>(1,033,837)</u>	<u>-</u>	<u>(18,888,820)</u>	
Other capital assets, net	<u>4,833,306</u>	<u>(876,635)</u>	<u>-</u>	<u>3,956,671</u>	
Total capital assets, net	<u>\$ 4,865,449</u>	<u>\$ (876,635)</u>	<u>\$ -</u>	<u>\$ 3,988,814</u>	

7. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS

A summary of long-term debt and capital lease obligations for the years ended December 31, 2008 and 2007, follows:

	Balance 12/31/07	Increases	Decreases	Balance 12/31/08	Amounts Due Within One Year
Capital lease obligations, at varying rates of imputed interest, collateralized by leased equipment.	<u>\$ 171,552</u>	<u>\$ -</u>	<u>\$ (171,552)</u>	<u>\$ -</u>	<u>\$ -</u>

	Balance 12/31/06	Increases	Decreases	Balance 12/31/07	Amounts Due Within One Year
Capital lease obligations, at varying rates of imputed interest, collateralized by leased equipment.	<u>\$ 397,960</u>	<u>\$ -</u>	<u>\$ (226,408)</u>	<u>\$ 171,552</u>	<u>\$ 171,552</u>

Borrowing restrictions - Texas Governmental Hospitals have significant limitations on their ability to borrow funds. Generally, they are limited in the length of term for obligations to purchase equipment and severely restricted in their ability to borrow for working capital needs. Additionally, there are restrictions on their ability to pledge tax revenues to meet obligations more than one year in the future.

MEMORIAL MEDICAL CENTER
(A Component Unit of Calhoun County, Texas)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

8. COMMITMENTS AND CONTINGENCIES

Operating Leases - The Hospital leases various equipment and facilities under operating leases expiring at various dates through October 2010. Total rental expense in 2008 and 2007 for all operating leases was approximately \$935,153 and \$849,974, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2008, that have initial or remaining lease terms in excess of one year:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2009	\$ 309,870
2010	\$ 47,968

Litigation - The Hospital is a unit of government covered by the Texas Tort Claims Acts which, by statute, limits its liability to \$100,000 per person/\$300,000 per occurrence. These limits coincide with the malpractice insurance coverage maintained by the Hospital. The Hospital, from time to time, may be subject to claims and suits for other damages as well. In the opinion of management, the ultimate resolution of the above types of legal proceedings will not have a material effect on the Hospital's financial position or results of operations.

Insurance Arrangements - The Hospital participates in an interlocal pool (the "Pool") of approximately 40 Texas rural governmental hospitals sharing risk for workers compensation injuries. The Pool has the right to assess the Hospital for an amount equal to its original annual contribution in the case of excess losses associated with any particular year during which the Hospital participated. The Pool maintains specific excess insurance on a per occurrence basis and also aggregate excess insurance that provide some mitigation of overall member losses. The Hospital is subject to additional funding assessments based on actual claims paid in excess of expected claim funding. At December 31, 2008, the Hospital does not expect additional assessments based on claim history.

As of December 31, 2007, the Pool ceased funding for the majority of their participants. The Pool will continue to operate until all claims have been resolved. The Hospital has obtained alternate indemnified coverage for subsequent workers compensation claims.

MEMORIAL MEDICAL CENTER
(A Component Unit of Calhoun County, Texas)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

8. COMMITMENTS AND CONTINGENCIES *(Continued)*

The Hospital is partially self-insured for employee health claims. Losses of more than \$100,000 for each employee incurred each year are covered by excess insurance. Additionally, insurance covers aggregate expenses in excess of \$2,900,000. An estimated liability of \$400,000 and \$426,054, respectively, has been recorded for claims that are unpaid at December 31, 2008 and 2007, as well as for those that are incurred but not reported. These estimates are based on an analysis of claims filed subsequent to those dates in conjunction with the above noted excess insurance. At year end, the Hospital had stop-loss insurance receivables of \$0 and \$111,317, respectively.

	Liability at	Current Year		Liability at
	Beginning	Claims and	Claims	End of Year
	of Year	Changes in	Payments	
		Estimates		
2007-2008	\$ 426,054	\$ 1,650,035	\$ (1,676,089)	\$400,000
2006-2007	\$ 586,000	\$ 1,730,978	\$ (1,890,924)	\$426,054

9. EMPLOYEE BENEFITS

Compensated Absences - As of December 31, 2008 and 2007, the Hospital has accrued compensated absence liability of \$310,172 and \$336,496, respectively. The Hospital does pay accrued vacation absences upon termination if proper notice and termination procedures are followed.

Retirement Plan Description - The Hospital provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 574 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 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 8 years of service but must leave their accumulated deposits in the plan to receive any employer-financed benefit. Members who withdraw their personal deposits in a lump sum are not entitled to any amounts contributed by their employer.

MEMORIAL MEDICAL CENTER
(A Component Unit of Calhoun County, Texas)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

9. EMPLOYEE BENEFITS *(Continued)*

Benefit amounts are determined by the sum of the employee's deposits to the plan, with interest, and employer-financed monetary credits. The level of these monetary credits is adopted by the governing body of the employer within the actuarial constraints imposed by the TCDRS Act so that the resulting benefits can be expected to be adequately financed by the employer's commitment to contribute. At retirement, death, or disability, the benefit is calculated by converting the sum of the employee's accumulated deposits and the employer-financed monetary credits to a monthly annuity using annuity purchase rates prescribed by the TCDRS Act.

Funding Policy - The employer 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 employer is actuarially determined annually. It was 5.32% for 2008.

The deposit rate payable by the employee members for 2008 was the rate of 7% as adopted by the governing body of the employer. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

Annual Pension Cost - For the employer's accounting years ending December 31, 2008 and 2007 the annual pension cost for the TCDRS plan for its employees was \$482,030 and \$415,708, respectively, at December 31, 2008 and 2007, and the total contributions were \$626,685 and \$598,155, respectively. In 2007, the Hospital authorized an increase in the benefit for eligible employees.

MEMORIAL MEDICAL CENTER
(A Component Unit of Calhoun County, Texas)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

9. EMPLOYEE BENEFITS *(Continued)*

The annual required contributions were actuarially determined as a percent of the covered payroll of the participating employees, and were in compliance with the GASB Statement No. 27 parameters based on the actuarial valuations as of December 31, 2007 and 2006, the bases for determining the contribution rates for 2008 and 2007. The December 31, 2007, actuarial valuation is the most recent valuation.

Actuarial Valuation Information

Actuarial Valuation Date	12/31/2005	12/31/2006	12/31/2007
Actuarial cost method	entry age	entry age	entry age
Amortization method	level percentage of payroll, open	level percentage of payroll, open	level percentage of payroll, open
Amortization period	30 years	30 years	30 years
Asset valuation method	long-term appreciation with adjustment	SAF:10yr smoothed value ESF: Fund value	SAF:10yr smoothed value ESF: Fund value
Actuarial Assumptions:			
Investment Return ¹	8.00%	8.00%	8.00%
Projected salary increases ¹	5.50%	5.30%	5.30%
Inflation	3.50%	3.50%	3.50%

¹Includes inflation at the stated rate

**Schedule of Funding Progress for the Retirement Plan
for the Employees of Memorial Medical Center**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) ¹ (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll ² (c)	UAAL Percentage of Covered Payroll ((b-a)/c)
12/31/05	\$12,636,002	\$11,976,029	\$ (659,973)	105.51%	\$6,181,048	(10.68)%
12/31/06	\$14,542,201	\$13,998,317	\$ (543,884)	103.89%	\$7,992,099	(6.81)%
12/31/07	\$16,184,485	\$15,808,638	\$ (375,847)	102.38%	\$8,589,014	(4.38)%

¹ Funding information may differ from prior year compliance data due to plan changes effective 1-01-2008.

² The annual covered payroll is based on the employee deposits received by TCDRS for the year ending with the valuation date.

MEMORIAL MEDICAL CENTER
(A Component Unit of Calhoun County, Texas)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

9. EMPLOYEE BENEFITS *(Continued)*

**Trend Information for the Retirement Plan
for the Employees of Memorial Medical Center**

Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2005	\$ 242,931	100%	\$ -
12/31/2006	\$ 295,708	100%	\$ -
12/31/2007	\$ 415,708	100%	\$ -
12/31/2008	\$ 457,065	100%	\$ -

10. FUNCTIONAL EXPENSES

The Hospital provides general health care services to residents within its geographic vicinity. Expenses related to providing these services are as follows:

	<u>2008</u>	<u>2007</u>
Health care services	\$ 20,190,209	\$ 19,594,825
General and administrative	<u>2,567,227</u>	<u>2,528,563</u>
	<u>\$ 22,757,436</u>	<u>\$ 22,123,388</u>

11. GUARANTEES

The Hospital enters into agreements with physicians guaranteeing minimum income in return for their agreement to practice in the surrounding area. These agreements require the Hospital to make advances in months the physician's net practice income falls below certain amounts. The physicians must repay these advances in months when net practice income is above these minimums. The physicians must continue to practice in Port Lavaca and the surrounding area for periods ranging from one to three years. Each month after the initial term of the agreement the physician continues to practice in the Port Lavaca area, a portion of the amount advanced will be forgiven. If the physician ceases to practice in Port Lavaca or the surrounding area, the amount must be repaid with interest. Additionally, the physician has the option at all times to repay the guarantees in lieu of performing services.

The Hospital has advanced a total of \$290,298 under these agreements, with \$214,237 and \$192,074, respectively, remaining unamortized as of December 31, 2008 and 2007.

MEMORIAL MEDICAL CENTER
(A Component Unit of Calhoun County, Texas)

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2008 AND 2007

12. MEMORIAL MEDICAL CENTER TRUST

The Hospital is the beneficiary of a trust (corpus of \$500,000). The trust is administered by an independent trustee who periodically distributes net income of the trust to the Hospital. The Hospital is not entitled to access the corpus of the trust unless the trust is dissolved by the trustee. During fiscal year 2008, the hospital received \$50,000 from this trust. During fiscal year 2007, the Hospital received no distributions from this trust.

13. DEFERRED REVENUE

In March 2007, the Hospital received \$1,500,000 in funds from the County for the provision of indigent care. These funds are used to provide payment for medical services for residents of Calhoun County based on pre-established indigent care requirements. As of December 31, 2008 and 2007, the Hospital had - and \$272,568 remaining from this funding for the provision of indigent care.

14. GAIN ON SALE OF ASSET

Effective October 1, 2008, the Hospital sold its dialysis unit to an outside vendor for \$800,000. As a result of the sale the Hospital has recognized \$718,906 in other revenue. The proceeds from the sale of the dialysis unit are currently recorded as a receivable from the county. The total receivable from the county in relation to the sale is \$789,957 with \$90,000 to be held for a one year period to account for any additional losses from which the buyer may have suffered or recoupments from third-party payors. In relation to the sale, the Hospital disposed of fixed assets with a net book value of \$15,270 and inventory valued at \$65,824.

15. SUBSEQUENT EVENTS

Subsequent to year end, the Hospital was considering leasing a new MRI for \$1,485,000. The Hospital was also in negotiations to have the MRI installed for approximately \$277,000, to include structural support for the floor supporting the MRI.

SUPPLEMENTAL INFORMATION

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INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION

To the Board of Directors
Memorial Medical Center
Port Lavaca, Texas

Our report on our audits of the basic financial statements of Memorial Medical Center (the "*Hospital*"), a component unit of Calhoun County, Texas, for the years ended December 31, 2008 and 2007 appears on page 5. Those audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on pages 26 through 27 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the examination of the basic financial statements and, in our opinion, the information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The financial statements for the years ended December 31, 2006 and 2005, were audited by us, and we expressed an unqualified opinion on them in our respectively dated reports, but we have not performed any auditing procedures since those dates.

Parrish, Moody & Fikes, p.c.

Waco, Texas
June 16, 2009

Memorial Medical Center
(A Component Unit of Calhoun County, Texas)
Supplemental Information
Details of Operating Income
Amounts
Years Ended December 31,

	2005	2006	2007	2008
Inpatient revenue	\$ 9,942,952	\$ 10,119,284	\$ 12,164,899	\$ 14,514,771
Outpatient revenue	26,418,195	27,010,353	30,763,163	32,386,891
Home health revenue	1,140,473	1,145,826	1,181,710	1,068,830
Total patient service revenues	<u>37,501,620</u>	<u>38,275,463</u>	<u>44,109,772</u>	<u>47,970,492</u>
Contractual deductions	(11,064,466)	(10,605,318)	(14,570,304)	(15,800,301)
Bad debts and uncollected accounts	(2,602,592)	(2,726,384)	(3,455,299)	(4,289,629)
Charity care	(2,089,837)	(1,598,320)	(1,490,268)	(1,594,794)
Other deductions	(2,161,946)	(2,494,162)	(3,162,529)	(4,452,804)
Disproportionate share and other credits	498,611	529,061	434,620	367,319
Total deductions from revenues	<u>(17,420,230)</u>	<u>(16,895,123)</u>	<u>(22,243,780)</u>	<u>(25,770,209)</u>
Net patient service revenues	20,081,390	21,380,340	21,865,992	22,200,283
Other revenue	155,160	148,903	195,948	282,670
	<u>20,236,550</u>	<u>21,529,243</u>	<u>22,061,940</u>	<u>22,482,953</u>
Salaries	7,497,212	8,086,880	8,636,632	9,047,308
Employee benefits	1,371,211	2,075,226	2,237,805	2,200,737
Payroll taxes	553,848	587,846	638,121	699,305
Purchased/contracted services	2,635,953	2,755,961	2,567,557	2,652,455
Payments to physicians - ER	955,218	961,899	1,004,564	1,039,908
Payments to physicians - other	134,260	186,608	148,031	152,194
Supplies	3,385,250	3,453,500	3,275,001	3,454,557
Education and training	63,376	113,996	37,634	44,646
Travel	127,038	139,119	136,373	126,893
Telephone and utilities	637,784	699,867	627,954	698,860
Maintenance and repairs	464,106	425,372	497,214	509,392
Rental expense	365,579	630,807	849,974	935,153
Insurance	287,528	244,505	223,663	186,751
Legal and professional	71,508	77,626	76,190	128,319
Depreciation and amortization	1,369,194	1,227,365	1,033,837	727,406
Other expenses	159,357	288,420	132,838	153,552
Total operating expenses	<u>20,078,422</u>	<u>21,954,997</u>	<u>22,123,388</u>	<u>22,757,436</u>
Operating income (loss)	<u>158,128</u>	<u>(425,754)</u>	<u>(61,448)</u>	<u>(274,483)</u>
Investment income	40,134	76,166	124,659	79,462
Interest expense	(59,402)	(28,966)	(54,286)	(30,074)
Contributions and grants	118,519	223,072	69,326	118,312
Other nonoperating revenue	(36,111)	150,066	-	718,906
Increase (decrease) in net assets	<u>\$ 221,268</u>	<u>\$ (5,416)</u>	<u>\$ 78,251</u>	<u>\$ 612,123</u>

See independent auditor's report on supplemental information.

Memorial Medical Center
(A Component Unit of Calhoun County, Texas)
Supplemental Information
Details of Operating Income
Percents
Years Ended December 31,

	2005	2006	2007	2008
Inpatient revenue	26.51 %	26.44 %	27.58 %	30.26 %
Outpatient revenue	70.45 %	70.57 %	69.74 %	67.51 %
Home health revenue	3.04 %	2.99 %	2.68 %	2.23 %
Total patient service revenues	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>
Contractual deductions	(29.50)%	(27.71)%	(33.03)%	(32.94)%
Bad debts and uncollected accounts	(6.94)%	(7.12)%	(7.83)%	(8.94)%
Charity care	(5.57)%	(4.18)%	(3.38)%	(3.32)%
Other deductions	(5.76)%	(6.52)%	(7.17)%	(9.28)%
Disproportionate share and other credits	1.33 %	1.38 %	0.99 %	0.77 %
Total deductions from revenues	<u>(46.45)%</u>	<u>(44.14)%</u>	<u>(50.43)%</u>	<u>(53.72)%</u>
Net patient service revenues	53.55 %	55.86 %	49.57 %	46.28 %
Other revenue	0.41 %	0.39 %	0.44 %	0.59 %
	<u>53.96 %</u>	<u>56.25 %</u>	<u>50.02 %</u>	<u>46.87 %</u>
Salaries	19.99 %	21.13 %	19.58 %	18.86 %
Employee benefits	3.66 %	5.42 %	5.07 %	4.59 %
Payroll taxes	1.48 %	1.54 %	1.45 %	1.46 %
Purchased/contracted services	7.03 %	7.20 %	5.82 %	5.53 %
Payments to physicians - ER	2.55 %	2.51 %	2.28 %	2.17 %
Payments to physicians - other	0.36 %	0.49 %	0.34 %	0.32 %
Supplies	9.03 %	9.02 %	7.42 %	7.20 %
Education and training	0.17 %	0.30 %	0.09 %	0.09 %
Travel	0.34 %	0.36 %	0.31 %	0.26 %
Telephone and utilities	1.70 %	1.83 %	1.42 %	1.46 %
Maintenance and repairs	1.24 %	1.11 %	1.13 %	1.06 %
Rental expense	0.97 %	1.65 %	1.93 %	1.95 %
Insurance	0.77 %	0.64 %	0.51 %	0.39 %
Legal and professional	0.19 %	0.20 %	0.17 %	0.27 %
Depreciation and amortization	3.65 %	3.21 %	2.34 %	1.52 %
Other expenses	0.42 %	0.75 %	0.30 %	0.32 %
Total operating expenses	<u>53.54 %</u>	<u>57.36 %</u>	<u>50.16 %</u>	<u>47.44 %</u>
Operating income (loss)	<u>0.42 %</u>	<u>(1.11)%</u>	<u>(0.14)%</u>	<u>(0.57)%</u>
Investment income	0.11 %	0.20 %	0.28 %	0.17 %
Interest expense	(0.16)%	(0.08)%	(0.12)%	(0.06)%
Contributions and grants	0.32 %	0.58 %	0.16 %	0.25 %
Other nonoperating revenue	(0.10)%	0.39 %	0.00 %	1.50 %
Increase (decrease) in net assets	<u>0.59 %</u>	<u>(0.01)%</u>	<u>0.18 %</u>	<u>1.28 %</u>

See independent auditor's report on supplemental information.