Memorial Medical Center
A Component Unit of Calhoun County, Texas

Accountants' Report and Financial Statements

December 31, 2011 and 2010

Memorial Medical Center
A Component Unit of Calhoun County, Texas
December 31, 2011 and 2010

Contents

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Independent Accountants' Report on Financial Statements and Supplementary Information

Board of Managers
Memorial Medical Center
Port Lavaca, Texas

We have audited the accompanying balance sheets of Memorial Medical Center, a component unit of Calhoun County, as of December 31, 2011 and 2010, 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 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 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, 2011 and 2010, and the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

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

BKD, LLP

July 19, 2012

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Management's Discussion and Analysis
Years Ended December 31, 2011 and 2010

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, 2011 and 2010. It should be read in conjunction with the accompanying financial statements of the Medical Center.

Financial Highlights

- Cash and investments increased in 2011 by $425,000, or 28 percent, and increased in 2010 by $459,000, or 43 percent.
- The Medical Center's net assets decreased in each of the past two years with a $701,000, or 10 percent, decrease in 2011 and a $1,639,000, or 20 percent, decrease in 2010.
- The Medical Center reported operating losses in both 2011 $1,193,000 and 2010 $2,416,000. The operating loss in 2011 decreased by $1,223,000, or 51 percent, over the operating loss reported in 2010. The operating loss in 2010 increased by $799,000, or 49 percent, from the operating loss reported in 2009.
- Net nonoperating revenues decreased by $321,000 in 2011 compared to 2010, and increased by $712,000 in 2010 compared to 2009.

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 assets; 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 Assets

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 assets 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 assets and changes in them. The Medical Center's total net assets—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 assets 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 and cash equivalents 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 and cash equivalents during the reporting period.

The Medical Center's Net Assets

The Medical Center's net assets are the difference between its assets and liabilities reported in the balance sheet. The Medical Center's net assets decreased by $701,000, or 10 percent, in 2011 and decreased by $1,639,000, or 20 percent, in 2010, as shown in Table 1.

Table 1: Assets, Liabilities and Net Assets

	2011	2010	2009
Assets			
Patient accounts receivable, net	$ 2,335,134	$ 2,424,382	$ 3,013,770
Other current assets	3,072,851	2,805,560	3,628,469
Capital assets, net	4,478,982	4,350,706	5,080,192
Total assets	$ 9,886,967	$ 9,580,648	$ 11,722,431
Liabilities and Net Assets			
Liabilities			
Current liabilities	$ 3,206,909	$ 1,951,485	$ 2,237,865
Long-term Debt	655,329	903,832	1,119,906
Total liabilities	3,862,238	2,855,317	3,357,771
Net Assets			
Invested in capital assets, net of related debt	3,595,395	3,225,312	3,719,891
Restricted	36,813	1,000	-
Unrestricted	2,392,521	3,499,019	4,644,769
Total net assets	6,024,729	6,725,331	8,364,660
Total liabilities and net assets	$ 9,886,967	$ 9,580,648	$ 11,722,431

The most significant changes in the Medical Center's financial position during 2011 were a net increase in cash of $425,000, an increase in notes payable of $500,000, and an increase in estimated amounts due to third-party payers of $740,000.

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

In 2011, the Medical Center's net assets decreased by $701,000, or 10 percent, as shown in Table 2. This decrease is primarily due to a net increase in estimated amounts due to third-party payers of $667,000. As a result of significant cost reductions during 2011, the Medical Center was overpaid by Medicare. The Medical Center recognized this and filed an interim cost report in order to adjust payment rates. The Medical Center's reduction in net assets decreased from $1,639,000 in 2010 to $701,000 in 2011, a decrease of 57 percent.

Table 2: Operating Results and Changes in Net Assets

	2011	2010	2009
Operating Revenues			
Net patient service revenue	$ 18,050,621	$ 18,344,803	$ 20,690,112
Other operating revenues	813,763	452,302	295,640
Total operating revenues	18,864,384	18,797,105	20,985,752
Operating Expenses			
Salaries, wages and employee benefits	10,067,405	10,874,659	12,286,557
Purchased services and professional fees	4,699,397	4,548,770	4,019,314
Depreciation	919,782	891,839	821,925
Other operating expenses	4,370,451	4,897,701	5,474,783
Total operating expenses	20,057,035	21,212,969	22,602,579
Operating Loss	(1,192,651)	(2,415,864)	(1,616,827)
Nonoperating Revenues (Expenses)			
Noncapital grants	-	754,670	76,673
Interest income	6,784	11,329	28,896
Interest expense	(30,683)	(66,005)	(40,872)
Other	479,135	76,541	-
Total nonoperating revenues	455,236	776,535	64,697
Capital Grants and Contributions	36,813	0	71,550
Decrease in Net Assets	$ (700,602)	$ (1,639,329)	$ (1,480,580)

Operating Losses

The first component of the overall change in the Medical Center's net assets 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. In each of the past three years, the Medical Center has reported an operating loss. This is consistent with the Medical Center's recent operating history as the Medical Center was formed and is operated primarily to serve residents of Calhoun County and the surrounding area.

The operating loss for 2011 decreased by $1,223,000, or 51 percent, as compared to 2010. The primary components of the decreased operating loss are reductions in expenses, most notably salaries, wages and employee benefits expense. Operating expense decreased $1,156,000 or 5 percent as compared to 2010, with the largest reduction in expenses, salaries and benefits expense, contributing a reduction of $807,000 or 7 percent due to a reduction in workforce. From 2009 to 2010, total expenses decreased $1,390,000 or 6 percent, with salaries and benefits expense contributing $1,412,000 or 11 percent of the decrease.

Nonoperating Revenues and Expenses

Nonoperating revenues and expenses consist primarily of grants and contributions to the Medical Center, investment income, interest expense and upper-payment limit (UPL) expense and on-behalf of payments. The Medical Center recognized a decrease in its grants and contributions during 2011 as compared to 2010, resulting primarily from a one-time donation of $715,000 during 2010 which did not occur during 2011. In the second full year of participation in the UPL program, the Medical Center recognized private UPL expense of $1,164,000 and on-behalf of payments of $1,643,000 during 2011. The Medical Center recognized UPL expense of $277,000 and on-behalf of payments of $354,000 during 2010.

The Medical Center's Cash Flows

During 2011, cash provided by operating activities increased $143,000 over 2010, primarily due to increases in other receipts related to electronic health record meaningful use incentive payments. Cash provided by noncapital financing activities increased $648,000 over 2010, due to cash proceeds from issuance of notes payable. Cash provided by capital and related financing decreased $820,000 due to increased purchase of capital assets. Cash provided by investing activities increased $245,000, primarily due to no additional investment during 2011.

Capital Asset and Debt Administration

Capital Assets

At the end of 2011, the Medical Center had $4,479,000 invested in capital assets, net of accumulated depreciation, as detailed in Note 5 to the financial statements.

Debt

At December 31, 2011, the Medical Center had $884,000 in capital lease obligations outstanding. During 2011, the Medical Center made regular capital lease payments and issued a note payable to the County in the amount of $500,000.

Contacting the Medical Center's Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Medical Center's finances and to show the Medical Center's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Medical Center's management at Memorial Medical Center, 815 N. Virginia, Port Lavaca, Texas 77979.

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Balance Sheets
December 31, 2011 and 2010

Assets

	2011	2010
Current Assets		
Cash	$ 1,445,277	$ 1,020,603
Short-term investments	500,000	500,000
Patient accounts receivable, net of allowance; 2011 - $3,985,000, 2010 - $3,076,000	2,335,134	2,424,382
Estimated amounts due from third-party payers	67,051	322,000
Supplies	564,040	553,712
Prepaid expenses and other	496,483	409,245
Total current assets	5,407,985	5,229,942
Capital Assets, Net	4,478,982	4,350,706
Total assets	$ 9,886,967	$ 9,580,648

See Notes to Financial Statements

Liabilities and Net Assets

	2011	2010
Current Liabilities		
Current maturities of long-term debt	$ 228,258	$ 221,562
Notes payable	500,000	-
Accounts payable	936,536	618,688
Accrued expenses	967,384	1,021,235
Estimated amounts due to third-party payers	574,731	90,000
Total current liabilities	3,206,909	1,951,485
Long-term Debt	655,329	903,832
Total liabilities	3,862,238	2,855,317
Net Assets		
Invested in capital assets, net of related debt	3,595,395	3,225,312
Restricted-expendable for equipment	36,813	-
Restricted-expendable for medical services	-	1,000
Unrestricted	2,392,521	3,499,019
Total net assets	6,024,729	6,725,331
Total liabilities and net assets	$ 9,886,967	$ 9,580,648

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Statements of Revenues, Expenses and Changes in Net Assets
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Revenues		
Net patient service revenue, net of provision for uncollectible accounts; 2011 - $6,796,927, 2010 - $6,175,552	$ 18,050,621	$ 18,344,803
Other	813,763	452,302
Total operating revenues	18,864,384	18,797,105
Operating Expenses		
Salaries and wages	7,891,513	8,394,535
Employee benefits	2,175,892	2,480,124
Purchased services and professional fees	4,699,397	4,548,770
Insurance	45,621	88,406
Supplies and other	4,324,830	4,809,295
Depreciation and amortization	919,782	891,839
Total operating expenses	20,057,035	21,212,969
Operating Loss	(1,192,651)	(2,415,864)
Nonoperating Revenues (Expenses)		
Noncapital grants and contributions	-	754,670
Investment return	6,784	11,329
Interest expense	(30,683)	(66,005)
Private UPL expense	(1,163,564)	(277,291)
On-behalf of payments	1,642,699	353,832
Total nonoperating revenues	455,236	776,535
Deficiency of Revenues Over Expenses Before Capital Grants and Gifts	(737,415)	(1,639,329)
Capital Grants and Gifts	36,813	0
Decrease in Net Assets	(700,602)	(1,639,329)
Net Assets, Beginning of Year	6,725,331	8,364,660
Net Assets, End of Year	$ 6,024,729	$ 6,725,331

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Statements of Cash Flows
Years Ended December 31, 2011 and 2010

	2011	2010
Operating Activities		
Receipts from and on-behalf of patients	$ 18,879,549	$ 20,068,040
Payments to suppliers and contractors	(8,849,566)	(9,171,028)
Payments to employees	(10,121,256)	(10,769,652)
Other receipts, net	813,763	452,302
Net cash provided by operating activities	722,490	579,662
Noncapital Financing Activities		
Noncapital grants and contributions	-	754,670
Private UPL program payments	(1,163,564)	(277,291)
On-behalf of payments	1,642,699	353,832
Principal paid on notes payable	-	(500,000)
Proceeds from issuance of note payable	500,000	-
Net cash provided by noncapital financing activities	979,135	331,211
Capital and Related Financing Activities		
Capital grants and gifts	36,813	-
Principal paid on long-term debt	(241,807)	(234,907)
Interest paid on long-term debt	(30,683)	(66,005)
Purchase of capital assets	(1,048,058)	(162,353)
Net cash used in capital and related financing activities	(1,283,735)	(463,265)
Investing Activities		
Interest on investments	6,784	11,329
Purchase of investments	(500,000)	(250,000)
Proceeds from disposition of investments	500,000	-
Net cash provided by (used in) investing activities	6,784	(238,671)
Increase in Cash	424,674	208,937
Cash, Beginning of Year	1,020,603	811,666
Cash , End of Year	$ 1,445,277	$ 1,020,603

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Statements of Cash Flows (Continued)
Years Ended December 31, 2011 and 2010

	2011	2010
Reconciliation of Net Operating Revenues (Expenses) to Net Cash Provided by Operating Activities		
Operating loss	$ (1,192,651)	$ (2,415,864)
Depreciation and amortization	919,782	891,839
Changes in operating assets and liabilities:		
Patients accounts receivable, net	89,248	589,388
Estimated amounts due from and to third-party payers	739,680	1,133,849
Accounts payable and accrued expenses	263,997	290,581
Other assets and liabilities	(97,566)	89,869
Net cash provided by operating activities	$ 722,490	$ 579,662

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

Nature of Operations and Reporting Entity

Memorial Medical Center (the Medical Center) is an acute care critical access hospital located in Port Lavaca, Texas. The Medical Center is a component unit of Calhoun County (the County) and the Board of County Commissioners appoints members to the Board of Trustees (the Board) of the Medical Center. The Medical Center primarily earns revenues by providing inpatient, outpatient and emergency care services to patients in the Calhoun County area. It also operated a home health agency in the same geographic area during part of 2010. The home health operation was sold effective July 2010 for a nominal amount.

Basis of Accounting and Presentation

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

The Medical Center prepares its financial statements as a business-type activity in conformity with applicable pronouncements of the Governmental Accounting Standards Board (GASB). Pursuant to GASB Statement No. 20, the Medical Center has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB) that do not conflict with or contradict GASB pronouncements.

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 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 reports 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

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.

Net Assets

Net assets of the Medical Center are classified in three components. Net assets invested in capital assets, net of related debt, consist of capital assets net of accumulated depreciation and reduced by the outstanding balances of borrowings used to finance the purchase or construction of those assets. Restricted expendable net assets are noncapital assets that must be used for a particular purpose, as specified by creditors, grantors or donors external to the Medical Center. Unrestricted net assets are remaining assets less remaining liabilities that do not meet the definition of invested in capital assets, net of related debt or restricted expendable.

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 include 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.

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.

Upper-payment Limit Program Payments

The Medical Center has elected to fund certain elements of the State of Texas' private UPL program. During the years ended December 31, 2011 and 2010, the Medical Center made payments of approximately $1,164,000 and $277,000 to the State.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Critical access hospitals are eligible to receive incentive payments for up to four years under the Medicare program for its reasonable costs of the purchase of certified EHR technology multiplied by the Hospital's Medicare utilization plus 20 percent, limited to 100 percent of the costs incurred. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services. Payment under both programs are contingent on the Hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year under both programs is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

The Medical Center recognizes revenue ratably over the reporting period starting at the point when management is reasonably assured it will meet all of the meaningful use objectives and any other specific grant requirements applicable for the reporting period.

In 2011, the Medical Center completed the first-year requirements under both the Medicare and Medicaid programs and has recorded revenue of approximately $351,000, which is included in other revenue within operating revenues in the statement of revenues, expenses and changes in net assets.

Income Taxes

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

Note 2: Net Patient Service Revenue

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 62 percent and 67 percent of net patient service revenue are from participation in the Medicare and state-sponsored Medicaid programs for the years ended December 31, 2011 and 2010, respectively. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

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

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, 2011 and 2010, 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:

	2011	2010
Carrying value:		
Deposits	$ 1,945,277	$ 1,520,603

Included in the following balance sheet captions:

	2011	2010
Cash	$ 1,445,277	$ 1,020,603
Short term investments	500,000	500,000
	$ 1,945,277	$ 1,520,603

Note 4: Patient Accounts Receivable

The Medical Center grants credit without collateral to its patients, many of whom are area residents and are insured under third-party payer agreements. Patient accounts receivable at December 31 consisted of the items below:

	2011	2010
Medicare	$ 1,081,114	$ 1,198,876
Medicaid	308,122	373,884
Other third-party payers	974,942	1,048,680
Patients	3,955,956	2,878,942
	6,320,134	5,500,382
Less allowance for uncollectible accounts	3,985,000	3,076,000
	$ 2,335,134	$ 2,424,382

Note 5: Capital Assets

Capital assets activity for the years ended December 31 was:

	2011				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets:					
Land	$ 32,143	$ -	$ -	$ -	$ 32,143
Buildings and improvements	9,209,598	-	-	-	9,209,598
Equipment	12,162,613	1,003,092	-	-	13,165,705
Leased assets	1,495,000	-	-	-	1,495,000
Construction in progress	-	44,966	-	-	44,966
Total capital assets	22,899,354	1,048,058	0	0	23,947,412
Less accumulated depreciation:					
Buildings and improvements	(7,293,703)	(215,313)	-	-	(7,509,016)
Equipment	(10,860,431)	(455,302)	-	-	(11,315,733)
Leased assets	(394,514)	(249,167)	-	-	(643,681)
Total accumulated depreciation	(18,548,648)	(919,782)	0	0	(19,468,430)
Capital assets, net	$ 4,350,706	$ 128,276	$ 0	$ 0	$ 4,478,982

	2010				
	Beginning Balance	Additions	Disposals	Transfers	Ending Balance
Capital assets:					
Land	$ 32,143	$ -	$ -	$ -	$ 32,143
Buildings and improvements	9,209,598	-	-	-	9,209,598
Equipment	12,000,260	162,353	-	-	12,162,613
Leased assets	1,495,000	-	-	-	1,495,000
Total capital assets	22,737,001	162,353	0	0	22,899,354
Less accumulated depreciation:					
Buildings and improvements	(7,078,389)	(215,314)	-	-	(7,293,703)
Equipment	(10,433,073)	(427,358)	-	-	(10,860,431)
Leased assets	(145,347)	(249,167)	-	-	(394,514)
Total accumulated depreciation	(17,656,809)	(891,839)	0	0	(18,548,648)
Capital assets, net	$ 5,080,192	$ (729,486)	$ 0	$ 0	$ 4,350,706

Note 6: Notes Payable

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

	Beginning Balance	Additions	Deductions	Ending Balance
Notes payable:				
Noninterest-bearing note - 2011	$ 0	$ 500,000	$ 0	$ 500,000
Noninterest-bearing note - 2010	$ 500,000	$ 0	$ (500,000)	$ 0

The Medical Center was approved for a $2,000,000 note payable with Calhoun County. As of December 31, 2011, only $500,000 had been drawn on the note.

Note 7: 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 claim 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 8: 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 was self-insured for health claims of participating employees and dependents up to an annual aggregate amount of $60,000 and $75,000 as of December 31, 2011 and 2010, respectively. 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 2011 and 2010 is summarized as follows:

	2011	2010
Balance, beginning of year	$ 285,000	$ 106,908
Current year claims incurred and changes in estimates for claims incurred in prior years	818,061	971,750
Claims and expenses paid	(958,061)	(793,658)
Balance, end of year	$ 145,000	$ 285,000

Note 9: Long-term Obligations

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

	Beginning Balance	Additions	Deductions	Ending Balance	Current Portion
Long-term debt:					
Capital lease obligations - 2011	$ 1,125,394	$ 0	$ (241,807)	$ 883,587	$ 228,258
Capital lease obligations - 2010	$ 1,360,301	$ 0	$ (234,907)	$ 1,125,394	$ 221,562

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, 2011 and 2010, totaled $851,319 and $1,100,486, respectively, net of accumulated depreciation of $643,681 and $394,514, respectively. The following is a schedule, by year, of future minimum lease payments under the capital lease, including interest, at the rate of 2.98 percent, together with the present value of the future minimum lease payments as of December 31, 2011:

Years Ending December 31,	Total to be Paid	Principal	Interest
2012	$ 249,575	$ 228,258	$ 21,317
2013	272,262	256,216	16,046
2014	272,263	263,959	8,304
2015	136,330	135,154	1,176
	$ 930,430	$ 883,587	$ 46,843

Note 10: Charity Care

The costs of charity care provided under the Medical Center's charity care policy were $878,847 and $883,584 for 2011 and 2010, respectively.

In support of its mission, the Medical Center voluntarily provides free care to patients who lack financial resources and are deemed to be medically indigent. Because the Medical Center does not pursue collection of amounts determined to qualify as charity care, they are not reported in net patient service revenue. In addition, the Medical Center provides services to other medically indigent patients under certain government-reimbursed public aid programs. Such programs pay providers amounts which are less than established charges for the services provided to the recipients and, many times, the payments are less than the cost of rendering the services provided.

In addition to uncompensated charges, the Medical Center also commits significant time and resources to endeavors and critical services which meet otherwise unfilled community needs. Many of these activities are sponsored with the knowledge that they will not be self-supporting or financially viable. Such programs include health screening and assessments and prenatal education and care.

Note 11: 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 575 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 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.

Funding Policy

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 7.19 percent and 7.24 percent for calendar years 2011 and 2010, 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.

Annual Pension Cost

For the Medical Center's fiscal year ended December 31, 2011, the annual pension cost (APC) for the TCDRS plan for its employees was $567,712, and the actual contributions were $565,712. For the Medical Center's fiscal year ended December 31, 2010, the annual pension cost for the TCDRS plan for its employees was $603,847, and the actual contributions were $603,847.

The required contributions for 2011 and 2010 were determined based on the results of actuarial valuations as of December 31, 2010 and 2009, using the entry age normal actuarial cost method. The actuarial assumptions included (a) an 8.0 percent investment rate of return (net of administrative expenses) and (b) projected salary increase of 5.4 percent for both 2010 and 2009. Both (a) and (b) included an inflation component of 3.5 percent value method. The actuarial valuation of plan assets was determined using a ten-year smoothed value and a fund value. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The amortization periods for the contributions based on the two valuations that determined the APC for the Medical Center's fiscal year ended December 31, 2011, were a 30-year open period for the December 31, 2011 and 2010, actuarial valuation.

Three-year Trend Information

Fiscal Year Ended	APC	Percentage of APC Contributed	Net Pension Obligation
12/31/2009	$ 565,788	100%	$ -
12/31/2010	603,847	100%	-
12/31/2011	565,712	100%	-

Funding Status and Funding Progress

As of December 31, 2010, the most recent actuarial valuation date, the plan was 93.02 percent funded. The actuarial accrued liability for benefits was $19,726,385 and the actuarial value of assets was $18,348,643, resulting in an unfunded actuarial accrued liability (OAAL) of $1,377,742. The covered payroll (annual payroll of active employees covered by the plan) was $8,340,424 and the ratio of the OAAL to the covered payroll was 16.52 percent.

The schedule of funding progress, presented as required supplementary information following the notes to financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits.

Note 12: Related-party Transactions

The Medical Center collaborates with the Service Organization of Houston (the Service Organization), a nonprofit corporation, to access Medicaid supplemental payments through the State of Texas' private UPL program. The Medical Center has one representative who serves on the Board of Directors of the Service Organization. The Service Organization funded certain health care services on behalf of the Medical Center in the amounts of $1,643,000 and $354,000 during the years ended December 31, 2011 and 2010, respectively. These on-behalf of payments are reflected as nonoperating revenues in the accompanying statements of revenues, expenses and changes in net assets.

Note 13: 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.

Health Care Reform

During 2010, Congress passed legislation that will significantly reform the United States health care system. The Legislation will require certain changes through 2014 to private and public health care insurance plans, including the Texas Medicaid program. While the impact of these regulatory changes cannot currently be determined, it is reasonably possible that these changes will significantly impact the Medical Center's net patient service revenues and operations.

Note 14: Risks and Uncertainties

Current Economic Conditions

The current economic environment presents hospitals with unprecedented circumstances and challenges, which, in some cases, have resulted in large declines in the fair value of investments and other assets, constraints on liquidity and difficulty obtaining financing. The financial statements have been prepared using values and information currently available to the Medical Center.

Current economic conditions, including the unemployment rate, have made it difficult for certain of our patients to pay for services rendered. As employers make adjustments to health insurance plans or more patients become unemployed, services provided to self-pay and other payers may significantly impact net patient service revenue, which could have an adverse impact on the Medical Center's future operating results. Further, the effect of economic conditions on the state may have an adverse effect on cash flows related to the Medicaid program.

Given the volatility of current economic conditions, the values of assets and liabilities recorded in the financial statements could change rapidly, resulting in material future adjustments in allowances for accounts receivable that could negatively impact the Medical Center's ability to maintain sufficient liquidity.

Required Supplementary Information

Memorial Medical Center
A Component Unit of Calhoun County, Texas
Schedule of Detail Changes in Net Assets - Percents
Year Ended December 31, 2010

Analysis of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets	Actuarial Accrued Liability (AAL) - Entry Age	Ratio of Assets to AAL	Unfunded Actuarial Accrued Liability (OAAL)	Annual Covered Payroll	OAAL as Percentage of Covered Payroll
12/31/08	$ 16,198,771	$ 17,473,676	92.70%	$ 1,274,905	$ 8,952,630	14.24%
12/31/09	17,433,357	18,700,370	93.22	1,267,013	9,433,820	13.43
12/31/10	18,348,643	19,726,385	93.02	1,377,742	8,340,424	16.52