

**MEMORIAL MEDICAL CENTER**

**(A Component Unit of Calhoun County, Texas)**

***Port Lavaca, Texas***

***REPORT OF EXAMINATION***

***For the Years Ended  
December 31, 2007 and 2006***

**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, 2007 AND 2006**

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEARS ENDED DECEMBER 31, 2007 AND 2006**

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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, 2007 and 2006. Please read it in conjunction with the Hospital's financial statements, which begin on page 6.

**Financial Highlights**

- The Hospital's net assets increased \$78,251 or 0.9% in 2007 and decreased by \$5,416 or 0.1% in 2006.
- During 2007, the Hospital reported an operating loss of \$(61,448) compared to an operating loss of \$(425,754) in 2006. Operating losses in 2007 decreased by \$364,306 or 85.6% over the loss reported in 2006. The operating loss in 2006 increased by \$583,882 or 369.2% under the income reported in 2005.
- Nonoperating revenues (net of expenses) decreased by \$195,773 or 58.4% in 2007 compared to 2006. Nonoperating revenues (net of expenses) increased by \$272,332 or 431.3% in 2006 compared to 2005.

**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?"



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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEARS ENDED DECEMBER 31, 2007 AND 2006**

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**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 \$78,251, or 0.9%, as a result of this year's operations. Net assets decreased by \$5,416, or 0.1% from 2005 to 2006 as shown in the following tables.

Table 1: Assets, Liabilities, and Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Assets:			
Current assets	\$ 7,380,587	\$ 6,413,128	\$ 5,501,647
Capital assets, net	<u>3,988,814</u>	<u>4,865,449</u>	<u>5,984,924</u>
Total assets	<u>\$ 11,369,401</u>	<u>\$ 11,278,577</u>	<u>\$ 11,486,571</u>
Liabilities:			
Current liabilities, less current debt	\$ 1,964,732	\$ 1,725,751	\$ 1,100,589
Long-term debt outstanding	<u>171,552</u>	<u>397,960</u>	<u>1,225,700</u>
Total liabilities	<u>2,136,284</u>	<u>2,123,711</u>	<u>2,326,289</u>
Net assets:			
Invested in capital assets, net of related debt	3,817,262	4,467,489	4,759,224
Unrestricted	<u>5,415,855</u>	<u>4,687,377</u>	<u>4,401,058</u>
Total net assets	<u>9,233,117</u>	<u>9,154,866</u>	<u>9,160,282</u>
Total liabilities and net assets	<u>\$ 11,369,401</u>	<u>\$ 11,278,577</u>	<u>\$ 11,486,571</u>

**MEMORIAL MEDICAL CENTER**  
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**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEARS ENDED DECEMBER 31, 2007 AND 2006**

**The Hospital's Net Assets** *(Continued)*

Table 2: Operating Results and Changes in Net Assets

	<u>2007</u>	<u>2006</u>	<u>2005</u>
Unrestricted revenues, gains, and other support			
Net patient service revenue	\$ 21,865,992	\$ 21,380,340	\$ 20,081,390
Other revenue	195,948	148,903	155,160
Total revenue, gains, and other support	<u>22,061,940</u>	<u>21,529,243</u>	<u>20,236,550</u>
Expenses			
Operating expenses	21,089,551	20,727,632	18,709,228
Depreciation and amortization	1,033,837	1,227,365	1,369,194
Total expenses	<u>22,123,388</u>	<u>21,954,997</u>	<u>20,078,422</u>
Operating income (loss)	<u>(61,448)</u>	<u>(425,754)</u>	<u>158,128</u>
Nonoperating revenues (expenses)			
Noncapital grants and contributions	69,326	138,206	118,519
Investment income	124,659	76,166	40,134
Interest expense	(54,286)	(28,966)	(59,402)
Gain (loss) on disposal of assets	-	150,066	(36,111)
Total nonoperating revenues (expenses)	<u>139,699</u>	<u>335,472</u>	<u>63,140</u>
Excess of revenues over expenses before capital grants, and contributions	78,251	(90,282)	221,268
Capital grants and contributions	<u>-</u>	<u>84,866</u>	<u>-</u>
Increase (decrease) in net assets	78,251	(5,416)	221,268
Net assets, beginning of year	<u>9,154,866</u>	<u>9,160,282</u>	<u>8,939,014</u>
Net assets, end of year	<u>\$ 9,233,117</u>	<u>\$ 9,154,866</u>	<u>\$ 9,160,282</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEARS ENDED DECEMBER 31, 2007 AND 2006**

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**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 decreased by \$364,306 in 2007 or 85.6% over the loss reported in 2006. The operating loss in 2006 increased by \$583,882 or 369.2% under the income reported in 2005.

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.

The primary components of the decrease in operating income in 2006:

- An increase in employee health costs of approximately \$700,000.
- An increase in operating lease costs due to the reclassification of the Toshiba capital lease, along with additional leases for computerized radiography and mammography.

**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 2007 and 2006, the Hospital had \$3,988,814 and \$4,865,449, 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 approximately \$172,000 in long-term capital leases versus \$400,000 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**

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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, 2007 and 2006, 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, 2007 and 2006, 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  
May 29, 2008



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Liabilities and Net Assets	2007	2006
<b>Current liabilities</b>		
Current portion of long-term debt	\$ 171,552	\$ 232,455
Accounts payable	601,539	437,093
Deferred revenue	272,568	-
Accrued expenses	<u>1,090,625</u>	<u>1,288,658</u>
Total current liabilities	<u>2,136,284</u>	<u>1,958,206</u>
<b>Long-term debt, net of current portion</b>	<u>-</u>	<u>165,505</u>
Total liabilities	<u>2,136,284</u>	<u>2,123,711</u>
<b>Commitments and contingencies</b>		
<b>Net assets</b>		
Invested in capital assets, net of related debt	3,817,262	4,467,489
Unrestricted	<u>5,415,855</u>	<u>4,687,377</u>
Total net assets	<u>9,233,117</u>	<u>9,154,866</u>
	<u>\$ 11,369,401</u>	<u>\$ 11,278,577</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, 2007 AND 2006**

	2007	2006
<b>Unrestricted revenues, gains, and other support</b>		
Net patient service revenue	\$ 21,865,992	\$ 21,380,340
Other revenue	195,948	148,903
Total revenues, gains, and other support	<u>22,061,940</u>	<u>21,529,243</u>
<b>Expenses</b>		
Operating expenses	21,089,551	20,727,632
Depreciation and amortization	1,033,837	1,227,365
Total expenses	<u>22,123,388</u>	<u>21,954,997</u>
<b>Operating income (loss)</b>	<u>(61,448)</u>	<u>(425,754)</u>
<b>Nonoperating revenues (expenses)</b>		
Noncapital grants and contributions	69,326	138,206
Investment income	124,659	76,166
Interest expense	(54,286)	(28,966)
Gain (loss) on disposal of assets	-	150,066
Total nonoperating revenues (expenses)	<u>139,699</u>	<u>335,472</u>
Excess of revenues over expenses before capital grants and contributions	78,251	(90,282)
<b>Capital grants and contributions</b>	<u>-</u>	<u>84,866</u>
<b>Increase (decrease) in net assets</b>	78,251	(5,416)
<b>Net assets, beginning of year</b>	<u>9,154,866</u>	<u>9,160,282</u>
<b>Net assets, end of year</b>	<u>\$ 9,233,117</u>	<u>\$ 9,154,866</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, 2007 AND 2006**

	2007	2006
<b>Cash flows from operating activities</b>		
Cash received from patients and third-party payors	\$ 22,205,974	\$ 20,343,066
Other receipts and payments from operations, net	195,948	148,903
Cash paid to suppliers	(9,469,859)	(10,241,805)
Cash paid to employees	(8,590,031)	(8,002,002)
Cash paid for employee benefits and payroll taxes	(3,122,508)	(2,173,312)
Net cash provided by (used in) operating activities	<u>1,219,524</u>	<u>74,850</u>
<b>Cash flows from investing activities</b>		
Investment earnings	124,659	76,166
Purchases of investments	-	(1,600,000)
Proceeds from sale of investments	<u>200,000</u>	<u>-</u>
Net cash provided by (used in) investing activities	<u>324,659</u>	<u>(1,523,834)</u>
<b>Cash flows from capital and related financing activities</b>		
Capital grants and contributions	-	84,866
Principal payments on long-term debt and notes payable	(226,408)	(311,740)
Interest payments on long-term debt and notes payable	(54,286)	(28,966)
Purchase of capital assets	<u>(157,202)</u>	<u>(473,824)</u>
Net cash provided by (used in) capital and related financing activities	<u>(437,896)</u>	<u>(729,664)</u>
<b>Cash flows from noncapital financing activities</b>		
Noncapital grants and contributions	<u>69,326</u>	<u>138,206</u>
Net cash provided by (used in) noncapital financing activities	<u>69,326</u>	<u>138,206</u>
Net increase (decrease) in cash and cash equivalents	1,175,613	(2,040,442)
<b>Cash balance, beginning of year</b>	<u>426,355</u>	<u>2,466,797</u>
<b>Cash balance, end of year</b>	<u>\$ 1,601,968</u>	<u>\$ 426,355</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, 2007 AND 2006**

	2007	2006
<b>Reconciliation of cash and equivalents to the balance sheets</b>		
Cash and equivalents presented under the following titles:		
Cash and cash equivalents	\$ 1,314,603	\$ 412,003
Assets limited as to use - current	287,365	14,352
	<u>\$ 1,601,968</u>	<u>\$ 426,355</u>
<b>Reconciliation of net income to net cash flows from operating activities</b>		
Operating income (loss)	\$ (61,448)	\$ (425,754)
Adjustments to reconcile operating income to net cash flows used in operating activities:		
Depreciation and amortization	1,033,837	1,227,365
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(323,632)	(339,084)
(Increase) decrease in other assets	(59,260)	(315,100)
Increase (decrease) in accounts payable and accrued expenses	(33,587)	625,162
(Increase) decrease in third-party payor settlements	391,046	(697,739)
Other prepaids, deferrals, and accruals, net	<u>272,568</u>	<u>-</u>
Net cash provided by (used in) operating activities	<u>\$ 1,219,524</u>	<u>\$ 74,850</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, 2007 AND 2006

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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, 2007 AND 2006**

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**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, 2007 and 2006.



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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
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**1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(Continued)*

**Capital Assets**

Capital assets consist of property and equipment acquisitions in excess of \$500, 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.



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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2007 AND 2006**

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**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 1.6033-52(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**  
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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2007 AND 2006**

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**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, 2007 and 2006, were \$555,972 and \$947,018, respectively. Adjustments to these amounts (if any) will be recognized in the year of determination.

	<u>2007</u>	<u>2006</u>
Current cost recievable from (payable to) Medicare	\$ 370,174	\$ 486,815
Current cost recievable from (payable to) Medicaid	<u>185,798</u>	<u>460,203</u>
Net third-party settlements	<u>\$ 555,972</u>	<u>\$ 947,018</u>

Net patient service revenues at December 31, 2007 and 2006 included \$367,596 and \$335,819, respectively, which was paid under the Medicaid Disproportionate Share program. The Hospital expects to receive approximately \$296,000 under this program during state fiscal year 2008.

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 \$27,956 and \$129,810 for the years ended December 31, 2007 and 2006, respectively. Additional advances will be made quarterly for calendar year 2008.

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, 2007 AND 2006**

**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 AND INVESTMENTS**

The components of assets limited and as to use and investments at December 31, 2007 and 2006, are set forth in the following table.

	<u>2007</u>	<u>2006</u>
Assets limited as to use current - cash and cash equivalents		
Designated for indigent care	\$ 272,568	\$ -
Designated for capital acquisition	<u>14,797</u>	<u>14,352</u>
	<u>\$ 287,365</u>	<u>\$ 14,352</u>
 Short-term investments	 <u>\$ 1,400,000</u>	 <u>\$ 1,600,000</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, 2007 and 2006:

	<u>2007</u>	<u>2006</u>
Gross patient service revenue	\$44,109,772	\$ 38,275,463
Medicare and Medicaid contractual adjustments	(14,135,684)	(10,076,257)
Bad debts and uncollected accounts	(3,455,299)	(2,726,384)
Other third-party payors	(3,162,529)	(2,494,162)
Charity care	<u>(1,490,268)</u>	<u>(1,598,320)</u>
	<u>\$21,865,992</u>	<u>\$ 21,380,340</u>



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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2007 AND 2006**

**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>2007</u>	<u>2006</u>
Medicare	23%	34%
Medicaid	10%	10%
Blue Cross	7%	6%
Other third-party payors	21%	24%
Patients	<u>39%</u>	<u>26%</u>
	<u>100%</u>	<u>100%</u>

	<u>2007</u>	<u>2006</u>
Accounts receivable - GROSS	\$ 5,598,153	\$ 4,408,155
Allowance for bad debts, uncollected accounts and contractual adjustments	<u>(2,754,412)</u>	<u>(1,888,046)</u>
Accounts receivable - NET	<u>\$ 2,843,741</u>	<u>\$ 2,520,109</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, 2007 and 2006, 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, 2007 AND 2006**

**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, 2007 and 2006, follows:

	Balance <u>12/31/06</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/07</u>	Depreciable <u>Lives</u>
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	(10,739,265)	(439,466)	-	(11,178,731)	
Leased assets	(727,103)	(265,000)	-	(992,103)	
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>	



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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2007 AND 2006**

**6. CAPITAL ASSETS** *(Continued)*

	Balance 12/31/05	Increases	Decreases	Balance 12/31/06	Depreciable Lives
Capital assets not being depreciated:					
Land	\$ 32,143	\$ -	\$ -	\$ 32,143	
Other capital assets:					
Buildings and improvements	8,871,117	50,008	-	8,921,125	25-50 years
Equipment	12,146,031	422,188	(131,460)	12,436,759	5-20 years
Leased assets	2,156,405	-	(826,000)	1,330,405	3-5 years
Total other capital assets at historical cost	23,173,553	472,196	(957,460)	22,688,289	
Less accumulated depreciation for:					
Buildings and improvements	(6,064,544)	(324,071)	-	(6,388,615)	
Equipment	(10,226,059)	(636,206)	123,000	(10,739,265)	
Leased assets	(930,169)	(265,000)	468,066	(727,103)	
Total accumulated depreciation	(17,220,772)	(1,225,277)	591,066	(17,854,983)	
Other capital assets, net	5,952,781	(753,081)	(366,394)	4,833,306	
Total capital assets, net	\$ 5,984,924	\$ (753,081)	\$ (366,394)	\$ 4,865,449	

**7. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS**

A summary of long-term debt and capital lease obligations for the years ended December 31, 2007 and 2006, follows:

	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.	\$ 397,960	\$ -	\$ (226,408)	\$ 171,552	\$ 171,552



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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2007 AND 2006**

**7. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS** *(Continued)*

	<u>Balance</u> <u>12/31/05</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>12/31/06</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Capital lease obligations, at varying rates of imputed interest, collateralized by leased equipment.	<u>\$ 1,225,700</u>	<u>\$ -</u>	<u>\$ (827,740)</u>	<u>\$ 397,960</u>	<u>\$ 232,455</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.

A summary of capital lease obligations following December 31, 2007 follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Capital Lease Obligations</u>	
	<u>Principal</u>	<u>Interest</u>
2008	<u>\$ 171,552</u>	<u>\$ 1,939</u>



**MEMORIAL MEDICAL CENTER**  
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**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2007 AND 2006**

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**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 2007 and 2006 for all operating leases was approximately \$849,974 and \$630,807, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2007, that have initial or remaining lease terms in excess of one year:

<u>Year Ending</u> <u>December 31,</u>	<u>Amount</u>
2008	\$ 388,692
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.



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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2007 AND 2006**

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**8. COMMITMENTS AND CONTINGENCIES** *(Continued)*

**Insurance Arrangements** - The Hospital participates in an interlocal pool (the "Pool") of approximately 34 Texas rural governmental hospitals sharing risk for workers compensation injuries. The Pool calculates a minimum pool contribution which is funded initially for participation and additionally calculates an expected level of claim development both based on payroll and claim estimates of the Hospital. If the Hospital experiences claim losses above this claim expectation, the required pool contribution may increase up to a second threshold. The Pool may also assess supplementary assessments to member hospitals not to exceed 100% of annual payments for any previous year the Hospital was a participant. The Pool maintains specific excess insurance on a per occurrence basis and also aggregate excess insurance that provide some mitigation of overall member losses. However, it is not possible to determine if these changes will be sufficient to maintain the loss pool without additional assessments to the Hospital. At December 31, 2007, the Hospital does not believe that a reserve for any assessments is necessary. Subsequent to year end, the Hospital has obtained coverage under an indemnified policy for workers compensation.

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 \$426,054 and \$586,008, respectively, has been recorded for claims that are unpaid at December 31, 2007 and 2006, 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 \$111,317.

	Liability at	Current Year		
	Beginning	Claims and	Claims	Liability at
	of Year	Changes in	Payments	End of Year
		Estimates		
2007	\$ 586,008	\$ 1,730,978	\$ (1,890,932)	\$426,054
2006	\$ 150,000	\$ 1,706,945	\$ (1,270,937)	\$586,008

**9. EMPLOYEE BENEFITS**

**Compensated Absences** - As of December 31, 2007 and 2006, the Hospital has accrued compensated absence liability of \$336,496. The Hospital does pay accrued vacation absences upon termination if proper notice and termination procedures are followed.



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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2007 AND 2006**

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**9. EMPLOYEE BENEFITS** *(Continued)*

**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 573 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.

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 4.84% for 2007.

The deposit rate payable by the employee members for 2007 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, 2007 and 2006 the annual pension cost for the TCDRS plan for its employees was \$415,708 and \$295,708, respectively, at December 31, 2007 and 2006, and the total contributions were \$598,155 and \$559,088, 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, 2007 AND 2006**

**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, 2006 and 2005, the bases for determining the contribution rates for 2007 and 2006. The December 31, 2006, actuarial valuation is the most recent valuation.

<b>Actuarial Valuation Information</b>			
Actuarial Valuation Date	12/31/2004	12/31/2005	12/31/2006
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	long-term appreciation with adjustment	SAF: 10yr smoothed value ESF: Fund value
<b>Actuarial Assumptions:</b>			
Investment Return <sup>1</sup>	8.00%	8.00%	8.00%
Projected salary increases <sup>1</sup>	5.50%	5.30%	5.30%
Inflation	3.50%	3.50%	3.50%

<sup>1</sup>Includes 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) <sup>1</sup> (b)	Unfunded Actuarial Accrued Liability (UAAL) (b-a)	Funded Ratio (a/b)	Annual Covered Payroll <sup>2</sup> (c)	UAAL Percentage of Covered Payroll ((b-a)/c)
12/31/04	\$11,575,171	\$10,464,422	\$(1,110,749)	110.61%	\$6,029,716	(18.42)%
12/31/05	\$12,636,002	\$11,976,029	\$ (659,973)	105.51%	\$6,181,048	(10.68)%
12/31/06	\$14,542,201	\$13,584,089	\$ (958,112)	107.05%	\$7,992,099	(11.99)%

<sup>1</sup> Funding information may differ from prior year compliance data due to plan changes effective 1-01-2007.

<sup>2</sup> 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, 2007 AND 2006**

**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%	\$ -

**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>2007</u>	<u>2006</u>
Health care services	\$ 19,594,825	\$ 19,293,450
General and administrative	<u>2,528,563</u>	<u>2,661,547</u>
	<u>\$ 22,123,388</u>	<u>\$ 21,954,997</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 a total of one year. 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 \$380,613 under these agreements, with \$192,074 and \$61,186, respectively, remaining unamortized as of December 31, 2007 and 2006.



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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2007 AND 2006**

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**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 years 2007 and 2006, the Hospital received approximately \$-0- and \$26,000, respectively, 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, 2007, the Hospital had \$272,568 remaining from this funding for the provision of indigent care.

**14. SUBSEQUENT EVENTS**

Subsequent to year end, the Hospital was in negotiations to sell the dialysis operations. The anticipated sale price is approximately \$900,000.



*SUPPLEMENTAL INFORMATION*



**PARRISH • MOODY & FIKES, p.c.**

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TEXAS

**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION**

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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, 2007 and 2006 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 27 through 28 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, 2005 and 2004, 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  
May 29, 2008



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

	2004	2005	2006	2007
Inpatient revenue	\$ 11,238,519	\$ 9,942,952	\$ 10,119,284	\$ 12,164,899
Outpatient revenue	24,373,157	26,418,195	27,010,353	30,763,163
Home health revenue	1,200,928	1,140,473	1,145,826	1,181,710
<b>Total patient service revenues</b>	<b>36,812,604</b>	<b>37,501,620</b>	<b>38,275,463</b>	<b>44,109,772</b>
Contractual deductions	(13,104,595)	(11,064,466)	(10,605,318)	(14,570,304)
Bad debts and uncollected accounts	(2,276,444)	(2,602,592)	(2,726,384)	(3,455,299)
Charity care	(1,555,464)	(2,089,837)	(1,598,320)	(1,490,268)
Other deductions	(2,129,545)	(2,161,946)	(2,494,162)	(3,162,529)
Disproportionate share and other credits	638,506	498,611	529,061	434,620
<b>Total deductions from revenues</b>	<b>(18,427,542)</b>	<b>(17,420,230)</b>	<b>(16,895,123)</b>	<b>(22,243,780)</b>
<b>Net patient service revenues</b>	<b>18,385,062</b>	<b>20,081,390</b>	<b>21,380,340</b>	<b>21,865,992</b>
Other revenue	414,010	155,160	148,903	195,948
	<b>18,799,072</b>	<b>20,236,550</b>	<b>21,529,243</b>	<b>22,061,940</b>
Salaries	7,204,219	7,497,212	8,086,880	8,636,632
Employee benefits	1,321,333	1,371,211	2,075,226	2,237,805
Payroll taxes	532,146	553,848	587,846	638,121
Purchased/contracted services	2,454,925	2,635,953	2,755,961	2,567,557
Payments to physicians - ER	934,459	955,218	961,899	1,004,564
Payments to physicians - other	104,048	134,260	186,608	148,031
Supplies	2,918,380	3,385,250	3,453,500	3,275,001
Education and training	37,089	63,376	113,996	37,634
Travel	118,827	127,038	139,119	136,373
Telephone and utilities	577,981	637,784	699,867	627,954
Maintenance and repairs	331,610	464,106	425,372	497,214
Rental expense	422,935	365,579	630,807	849,974
Insurance	583,528	287,528	244,505	223,663
Legal and professional	70,941	71,508	77,626	76,190
Depreciation and amortization	1,421,181	1,369,194	1,227,365	1,033,837
Other expenses	138,917	159,357	288,420	132,838
<b>Total operating expenses</b>	<b>19,172,519</b>	<b>20,078,422</b>	<b>21,954,997</b>	<b>22,123,388</b>
<b>Operating income (loss)</b>	<b>(373,447)</b>	<b>158,128</b>	<b>(425,754)</b>	<b>(61,448)</b>
Investment income	20,371	40,134	76,166	124,659
Interest expense	(47,040)	(59,402)	(28,966)	(54,286)
Contributions and grants	102,554	118,519	223,072	69,326
Other nonoperating revenue	-	(36,111)	150,066	-
<b>Increase (decrease) in net assets</b>	<b>\$ (297,562)</b>	<b>\$ 221,268</b>	<b>\$ (5,416)</b>	<b>\$ 78,251</b>

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,**

	2004	2005	2006	2007
Inpatient revenue	30.53 %	26.51 %	26.44 %	27.58 %
Outpatient revenue	66.21 %	70.45 %	70.57 %	69.74 %
Home health revenue	3.26 %	3.04 %	2.99 %	2.68 %
<b>Total patient service revenues</b>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>
Contractual deductions	(35.60)%	(29.50)%	(27.71)%	(33.03)%
Bad debts and uncollected accounts	(6.18)%	(6.94)%	(7.12)%	(7.83)%
Charity care	(4.23)%	(5.57)%	(4.18)%	(3.38)%
Other deductions	(5.78)%	(5.76)%	(6.52)%	(7.17)%
Disproportionate share and other credits	1.73 %	1.33 %	1.38 %	0.99 %
<b>Total deductions from revenues</b>	<u>(50.06)%</u>	<u>(46.45)%</u>	<u>(44.14)%</u>	<u>(50.43)%</u>
<b>Net patient service revenues</b>	49.94 %	53.55 %	55.86 %	49.57 %
Other revenue	1.12 %	0.41 %	0.39 %	0.44 %
	<u>51.07 %</u>	<u>53.96 %</u>	<u>56.25 %</u>	<u>50.02 %</u>
Salaries	19.57 %	19.99 %	21.13 %	19.58 %
Employee benefits	3.59 %	3.66 %	5.42 %	5.07 %
Payroll taxes	1.45 %	1.48 %	1.54 %	1.45 %
Purchased/contracted services	6.67 %	7.03 %	7.20 %	5.82 %
Payments to physicians - ER	2.54 %	2.55 %	2.51 %	2.28 %
Payments to physicians - other	0.28 %	0.36 %	0.49 %	0.34 %
Supplies	7.93 %	9.03 %	9.02 %	7.42 %
Education and training	0.10 %	0.17 %	0.30 %	0.09 %
Travel	0.32 %	0.34 %	0.36 %	0.31 %
Telephone and utilities	1.57 %	1.70 %	1.83 %	1.42 %
Maintenance and repairs	0.90 %	1.24 %	1.11 %	1.13 %
Rental expense	1.15 %	0.97 %	1.65 %	1.93 %
Insurance	1.59 %	0.77 %	0.64 %	0.51 %
Legal and professional	0.19 %	0.19 %	0.20 %	0.17 %
Depreciation and amortization	3.86 %	3.65 %	3.21 %	2.34 %
Other expenses	0.38 %	0.42 %	0.75 %	0.30 %
<b>Total operating expenses</b>	<u>52.08 %</u>	<u>53.54 %</u>	<u>57.36 %</u>	<u>50.16 %</u>
<b>Operating income (loss)</b>	<u>(1.01)%</u>	<u>0.42 %</u>	<u>(1.11)%</u>	<u>(0.14)%</u>
Investment income	0.06 %	0.11 %	0.20 %	0.28 %
Interest expense	(0.13)%	(0.16)%	(0.08)%	(0.12)%
Contributions and grants	0.28 %	0.32 %	0.58 %	0.16 %
Other nonoperating revenue	0.00 %	(0.10)%	0.39 %	0.00 %
<b>Increase (decrease) in net assets</b>	<u>(0.81)%</u>	<u>0.59 %</u>	<u>(0.01)%</u>	<u>0.18 %</u>

See independent auditor's report on supplemental information.