

# **MEMORIAL MEDICAL CENTER**

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

***Port Lavaca, Texas***

## ***REPORT OF EXAMINATION***

***For the Years Ended  
December 31, 2009 and 2008***

**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, 2009 AND 2008**

---

**TABLE OF CONTENTS**

	<u>Page Number</u>
Management's Discussion and Analysis	1 - 4
Independent Auditor's Report	5
Financial Statements:	
Balance Sheets	6
Statements of Revenues, Expenses, and Changes in Net Assets	7
Statements of Cash Flows	8 - 9
Notes to Financial Statements	10 - 28
Supplemental Information:	
Independent Auditor's Report on Supplemental Information	29
Details of Operating Income — Amounts	30
Details of Operating Income — Percents	31

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEARS ENDED DECEMBER 31, 2009 AND 2008**

---

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, 2009 and 2008. Please read it in conjunction with the Hospital's financial statements, which begin on page 6.

**Financial Highlights**

- The Hospital's net assets decreased \$(1,480,580) or 15.0% in 2009 and increased by \$612,123 or 6.6% in 2008.
- During 2009, the Hospital reported an operating loss of \$(1,616,827) compared to an operating loss of \$(274,483) in 2008. The operating losses in 2009 increased by \$1,342,344 or 489.0% over the loss reported in 2008. The operating loss in 2008 increased by \$213,035 or 346.7% over the loss reported in 2007.
- Nonoperating revenues (net of expenses), not including capital grants and contributions, decreased by \$771,909 or 92.3% in 2009 compared to 2008. Nonoperating revenues (net of expenses), not including capital grants and contributions, increased by \$696,907 or 498.9% in 2008 compared to 2007.

**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's 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.

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEARS ENDED DECEMBER 31, 2009 AND 2008**

---

**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?"

**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 decreased \$1,480,580, or 15.0%, as a result of this year's operations. Net assets increased by \$612,123, or 6.6% from 2007 to 2008 as shown in the following tables.

Table 1: Assets, Liabilities, and Net Assets

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Assets:			
Current assets	\$ 6,642,239	\$ 8,362,323	\$ 7,380,587
Capital assets, net	5,080,192	3,696,436	3,988,814
Cash restricted by contributors and grantors	-	51,360	-
Total assets	<u>\$ 11,722,431</u>	<u>\$ 12,110,119</u>	<u>\$ 11,369,401</u>
Liabilities:			
Current liabilities, less current debt	\$ 1,997,470	\$ 2,264,879	\$ 1,964,732
Long-term debt outstanding	<u>1,360,301</u>	<u>-</u>	<u>171,552</u>
Total liabilities	<u>3,357,771</u>	<u>2,264,879</u>	<u>2,136,284</u>
Net assets:			
Invested in capital assets, net of related debt	3,219,891	3,696,436	3,817,262
Restricted	-	51,360	-
Unrestricted	<u>5,144,769</u>	<u>6,097,444</u>	<u>5,415,855</u>
Total net assets	<u>8,364,660</u>	<u>9,845,240</u>	<u>9,233,117</u>
Total liabilities and net assets	<u>\$ 11,722,431</u>	<u>\$ 12,110,119</u>	<u>\$ 11,369,401</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEARS ENDED DECEMBER 31, 2009 AND 2008**

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

Table 2: Operating Results and Changes in Net Assets

	<u>2009</u>	<u>2008</u>	<u>2007</u>
Unrestricted revenues, gains, and other support			
Net patient service revenue	\$ 20,690,112	\$ 22,200,283	\$ 21,865,992
Other revenue	<u>295,640</u>	<u>282,670</u>	<u>195,948</u>
Total revenue, gains, and other support	<u>20,985,752</u>	<u>22,482,953</u>	<u>22,061,940</u>
Expenses			
Operating expenses	21,780,654	22,030,030	21,089,551
Depreciation and amortization	<u>821,925</u>	<u>727,406</u>	<u>1,033,837</u>
Total expenses	<u>22,602,579</u>	<u>22,757,436</u>	<u>22,123,388</u>
Operating income (loss)	<u>(1,616,827)</u>	<u>(274,483)</u>	<u>(61,448)</u>
Nonoperating revenues (expenses)			
Noncapital grants and contributions	76,673	68,312	69,326
Investment income	28,896	79,462	124,659
Interest expense	(40,872)	(30,074)	(54,286)
Gain (loss) on disposal of assets	<u>-</u>	<u>718,906</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>64,697</u>	<u>836,606</u>	<u>139,699</u>
Excess of revenues over expenses before capital grants and contributions	(1,552,130)	562,123	78,251
Capital grants and contributions	<u>71,550</u>	<u>50,000</u>	<u>-</u>
Increase (decrease) in net assets	(1,480,580)	612,123	78,251
Net assets, beginning of year	<u>9,845,240</u>	<u>9,233,117</u>	<u>9,154,866</u>
Net assets, end of year	<u>\$ 8,364,660</u>	<u>\$ 9,845,240</u>	<u>\$ 9,233,117</u>

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

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**YEARS ENDED DECEMBER 31, 2009 AND 2008**

---

**Operating Income (Loss) —**

The first component of the overall change in the Hospital's net assets is its operating income (loss) — generally, the difference between net patient service revenue and the expenses incurred to perform those services. Operating losses increased by \$1,342,344 in 2009 or 489.0% over the loss reported in 2008. The operating loss in 2008 increased by \$213,035 or 346.7% under the loss reported in 2007.

The primary components of the increase in operating loss in 2009:

- An increase in bad debts
- A decrease in volume

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

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

**Nonoperating Revenues (Expenses) —**

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

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

**The Hospital's Cash Flows**

The Hospital's cash flows increased from the prior year primarily due to issuance of notes payable.

**Capital Assets and Debt Administration**

**Capital Assets** - At the end of 2009 and 2008, the Hospital had \$5,080,192 and \$3,696,436, 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 \$1,860,000 in long-term capital leases and notes payable versus \$0 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.**

CERTIFIED PUBLIC ACCOUNTANTS

7901 WOODWAY DRIVE, SUITE 100  
WACO, TEXAS 76712-3866

(254) 776-8244  
FAX (254) 776-8277  
E-MAIL: [pmf@pmfwaco.com](mailto:pmf@pmfwaco.com)  
[www.pmfwaco.com](http://www.pmfwaco.com)

OFFICES IN:  
WACO & AUSTIN,  
TEXAS

**INDEPENDENT AUDITOR'S REPORT**

---

To the Board of Trustees  
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, 2009 and 2008, 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, 2009 and 2008, and the changes in financial position and cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

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

*Parrish, Moody & Fikes, p.c.*

Waco, Texas  
June 16, 2010



*THIS PAGE INTENTIONALLY LEFT BLANK*

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

**BALANCE SHEETS**

**DECEMBER 31, 2009 AND 2008**

Assets	2009	2008
<b>Current assets</b>		
Cash and cash equivalents	\$ 811,666	\$ 1,065,206
Short-term investments	250,000	2,300,000
Patient accounts receivable, net	3,013,770	2,938,162
Estimated third-party payor settlements receivable	1,513,977	117,284
Other current assets	<u>1,052,826</u>	<u>1,941,671</u>
Total current assets	<u>6,642,239</u>	<u>8,362,323</u>
<b>Cash restricted by contributors and grantors</b>	-	51,360
<b>Capital assets</b>		
Land	32,143	32,143
Depreciable capital assets, net	<u>5,048,049</u>	<u>3,664,293</u>
Total capital assets, net	<u>5,080,192</u>	<u>3,696,436</u>
	<u>\$ 11,722,431</u>	<u>\$ 12,110,119</u>

Liabilities and Net Assets	2009	2008
<b>Current liabilities</b>		
Notes payable	\$ 500,000	\$ -
Current portion of long-term debt	240,395	-
Accounts payable	433,114	551,977
Estimated third-party payor settlements payable	148,128	547,267
Deferred revenue	222	-
Accrued expenses	916,006	1,165,635
Total current liabilities	2,237,865	2,264,879
<b>Long-term debt, net of current portion</b>	1,119,906	-
Total liabilities	3,357,771	2,264,879
<b>Commitments and contingencies</b>		
<b>Net assets</b>		
Invested in capital assets, net of related debt	3,219,891	3,696,436
Restricted:		
Designated for capital acquisitions	-	50,000
Designated for after school program	-	1,360
Unrestricted	5,144,769	6,097,444
Total net assets	8,364,660	9,845,240
	<u>\$ 11,722,431</u>	<u>\$ 12,110,119</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, 2009 AND 2008**

	2009	2008
<b>Unrestricted revenues, gains, and other support</b>		
Net patient service revenue	\$ 20,690,112	\$ 22,200,283
Other revenue	<u>295,640</u>	<u>282,670</u>
Total revenues, gains, and other support	<u>20,985,752</u>	<u>22,482,953</u>
<b>Expenses</b>		
Operating expenses	21,780,654	22,030,030
Depreciation and amortization	<u>821,925</u>	<u>727,406</u>
Total expenses	<u>22,602,579</u>	<u>22,757,436</u>
<b>Operating income (loss)</b>	<u>(1,616,827)</u>	<u>(274,483)</u>
<b>Nonoperating revenues (expenses)</b>		
Noncapital grants and contributions	76,673	68,312
Investment income	28,896	79,462
Interest expense	(40,872)	(30,074)
Gain (loss) on disposal of assets	<u>-</u>	<u>718,906</u>
Total nonoperating revenues (expenses)	<u>64,697</u>	<u>836,606</u>
Excess of revenues over expenses before capital grants and contributions	(1,552,130)	562,123
<b>Capital grants and contributions</b>	<u>71,550</u>	<u>50,000</u>
<b>Increase (decrease) in net assets</b>	(1,480,580)	612,123
<b>Net assets, beginning of year</b>	<u>9,845,240</u>	<u>9,233,117</u>
<b>Net assets, end of year</b>	<u>\$ 8,364,660</u>	<u>\$ 9,845,240</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, 2009 AND 2008**

	2009	2008
<b>Cash flows from operating activities</b>		
Cash received from patients and third-party payors	\$ 18,818,894	\$ 22,819,700
Other receipts and payments from operations, net	295,640	282,670
Cash paid to suppliers	(8,846,011)	(10,376,020)
Cash paid to employees	(9,450,800)	(9,028,485)
Cash paid for employee benefits and payroll taxes	(2,963,490)	(2,844,387)
Net cash provided by (used in) operating activities	(2,145,767)	853,478
<b>Cash flows from investing activities</b>		
Investment earnings	28,896	79,462
Purchases of investments	-	(900,000)
Proceeds from sale of investments	2,050,000	-
Net cash provided by (used in) investing activities	2,078,896	(820,538)
<b>Cash flows from capital and related financing activities</b>		
Capital grants and contributions	71,550	50,000
Principal payments on long-term debt and notes payable	(134,699)	(171,552)
Interest payments on long-term debt and notes payable	(40,872)	(30,074)
Purchase of capital assets	(710,681)	(435,028)
Net cash provided by (used in) capital and related financing activities	(814,702)	(586,654)
<b>Cash flows from noncapital financing activities</b>		
Noncapital grants and contributions	76,673	68,312
Proceeds from issuance of long-term debt and notes payable	500,000	-
Net cash provided by (used in) noncapital financing activities	576,673	68,312
Net increase (decrease) in cash and cash equivalents	(304,900)	(485,402)
<b>Cash balance, beginning of year</b>	1,116,566	1,601,968
<b>Cash balance, end of year</b>	\$ 811,666	\$ 1,116,566

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, 2009 AND 2008**

	2009	2008
<b>Reconciliation of cash and equivalents to the balance sheets</b>		
Cash and equivalents presented under the following titles:		
Cash and cash equivalents	\$ 811,666	\$ 1,065,206
Restricted by contributors and grantors	-	51,360
	<u>\$ 811,666</u>	<u>\$ 1,116,566</u>
<b>Reconciliation of net income to net cash flows from operating activities</b>		
Operating income (loss)	\$ (1,616,827)	\$ (274,483)
Adjustments to reconcile operating income to net cash flows used in operating activities:		
Depreciation and amortization	821,925	727,406
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(75,608)	(94,421)
(Increase) decrease in other assets	888,845	(243,859)
Increase (decrease) in accounts payable and accrued expenses	(368,492)	25,448
(Increase) decrease in third-party payor settlements	(1,795,832)	985,955
Other prepaids, deferrals, and accruals, net	<u>222</u>	<u>(272,568)</u>
Net cash provided by (used in) operating activities	<u>\$ (2,145,767)</u>	<u>\$ 853,478</u>
<b>Schedule of noncash investing, capital, and financing activities</b>		
Cost of new equipment under capital leases	<u>\$ 1,495,000</u>	<u>\$ -</u>
New obligations under capital leases	<u>\$ 1,495,000</u>	<u>\$ -</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, 2009 AND 2008

---

**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, 2009 AND 2008**

---

**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 Trustees 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, 2009 and 2008.



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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2009 AND 2008**

---

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

**Capital Assets**

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

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

**Operating Revenues and Expenses**

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

**Net Patient Service Revenue**

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

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2009 AND 2008**

---

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

**Charity Care**

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

**Income Taxes**

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

**Supplies Inventory**

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

**Risk Management**

The Hospital is exposed to various risks of loss from torts; theft of, damage to and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accidental benefits. Commercial insurance coverage is purchased for claims arising from such matters, except for employee health benefits, for which the Hospital is partially self-insured.

**Costs of Borrowing**

Interest cost incurred on borrowed funds (if any) during the period of construction of capital assets (if any) is capitalized as a component of the cost of acquiring those assets.

**Presentation**

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

**Subsequent Events**

In preparing these financial statements, the Hospital has evaluated events and transactions for potential recognition or disclosure through June 16, 2010, the date of the financial statements were available to be issued.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2009 AND 2008**

---

**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, 2009 and 2008, were \$1,365,849 and \$(429,983), respectively. Adjustments to these amounts (if any) will be recognized in the year of determination.

	<u>2009</u>	<u>2008</u>
Current cost receivable from (payable to) Medicare	\$ 1,050,183	\$ (471,227)
Current cost receivable from (payable to) Medicaid	315,666	117,284
Prior year cost receivable from (payable to) Medicare	-	(76,040)
2005 receivable from (payable to) Medicare	6,873	-
2006 receivable from (payable to) Medicare	130,253	-
2007 receivable from (payable to) Medicare	(148,128)	-
2008 receivable from (payable to) Medicare	<u>11,002</u>	<u>-</u>
Net third-party settlements	<u>\$ 1,365,849</u>	<u>\$ (429,983)</u>

Net patient service revenues at December 31, 2009 and 2008 included \$597,814 and \$261,862, respectively, which was paid under the Medicaid Disproportionate Share program. The Hospital expects to receive approximately \$486,000 under this program during state fiscal year 2010.

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 is not required to advance funds, but received \$93,660 and \$93,031 for the years ended December 31, 2009 and 2008, respectively.

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.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2009 AND 2008**

---

**2. NET PATIENT SERVICE REVENUE** *(Continued)*

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

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. INVESTMENTS AND RESTRICTED ASSETS**

The components of investments and restricted assets at December 31, 2009 and 2008, are set forth in the following table.

	<u>2009</u>	<u>2008</u>
Restricted assets		
Restricted for capital acquisition	\$ -	\$ 50,000
Restricted for after school program	<u>-</u>	<u>1,360</u>
	<u>\$ -</u>	<u>\$ 51,360</u>
 Short-term investments	 <u>\$ 250,000</u>	 <u>\$ 2,300,000</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2009 AND 2008**

---

**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, 2009 and 2008:

	<u>2009</u>	<u>2008</u>
Gross patient service revenue	\$ 43,554,573	\$ 47,970,492
Medicare and Medicaid contractual adjustments	(10,459,284)	(15,432,982)
Bad debts and uncollected accounts	(5,845,633)	(4,289,629)
Other third-party payors	(4,565,573)	(4,452,804)
Charity care	<u>(1,993,971)</u>	<u>(1,594,794)</u>
	<u>\$ 20,690,112</u>	<u>\$ 22,200,283</u>

**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>2009</u>	<u>2008</u>
Medicare	24%	25%
Medicaid	7%	8%
Blue Cross	7%	9%
Other third-party payors	14%	15%
Patients	<u>48%</u>	<u>43%</u>
	<u>100%</u>	<u>100%</u>

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2009 AND 2008**

---

**5. CONCENTRATIONS OF CREDIT RISK** *(Continued)*

	<u>2009</u>	<u>2008</u>
Accounts receivable - GROSS	\$ 7,313,509	\$ 7,028,129
Allowance for bad debts, uncollected accounts and contractual adjustments	<u>(4,299,739)</u>	<u>(4,089,967)</u>
Accounts receivable - NET	<u>\$ 3,013,770</u>	<u>\$ 2,938,162</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, 2009 and 2008, respectively.

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

**Interest Rate Risk** – Interest rate risk is the risk that market values of investments will change based on changes in market interest rates.

**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.

**Suppliers** - The Hospital is dependent on a third party provider of emergency care services. 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.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2009 AND 2008**

**6. CAPITAL ASSETS**

A summary of capital asset balances and activity for the years ending December 31, 2009 and 2008, follows:

	Balance 12/31/08	Increases	Decreases	Transfers	Balance 12/31/09	Depreciable Lives
Capital assets not being depreciated:						
Land	\$ 32,143	\$ -	\$ -	\$ -	\$ 32,143	
Construction in progress	-	2,033,678	-	(2,033,678)	-	
Total capital assets not being depreciated	32,143	2,033,678	-	(2,033,678)	32,143	
Other capital assets:						
Buildings and improvements	8,914,620	18,370	-	276,608	9,209,598	25-50 years
Equipment	11,722,589	153,633	(138,032)	262,070	12,000,260	5-20 years
Leased assets	-	-	-	1,495,000	1,495,000	3-5 years
Total other capital assets at historical cost	20,637,209	172,003	(138,032)	2,033,678	22,704,858	
Less accumulated depreciation for:						
Buildings and improvements	(6,959,852)	(118,537)	-	-	(7,078,389)	
Equipment	(10,013,064)	(495,749)	138,032	-	(10,370,781)	
Leased assets	-	(207,639)	-	-	(207,639)	
Total accumulated depreciation	(16,972,916)	(821,925)	138,032	-	(17,656,809)	
Other capital assets, net	3,664,293	(649,922)	-	2,033,678	5,048,049	
Total capital assets, net	\$ 3,696,436	\$ 1,383,756	\$ -	\$ -	\$ 5,080,192	

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2009 AND 2008**

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

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

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

A summary of long-term debt and capital lease obligations for the years ended December 31, 2009 and 2008, follows:

	Balance 12/31/08	Increases	Decreases	Balance 12/31/09	Amounts Due Within One Year
Capital lease obligations, at varying rates of imputed interest, collateralized by leased equipment.	\$ -	\$ 1,495,000	\$ (134,699)	\$ 1,360,301	\$ 240,395

  

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



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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2009 AND 2008**

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

Year Ending December 31,	Capital Lease Obligations	
	Principal	Interest
2010	\$ 240,395	\$ 31,868
2011	246,529	25,734
2012	252,819	19,444
2013	259,269	12,993
2014	265,885	6,378
2015	95,404	661
	<u>\$ 1,360,301</u>	<u>\$ 97,078</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.

**8. NOTES PAYABLE**

A summary of notes payable for the year ended December 31, 2009, follows:

	Balance <u>12/31/08</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>12/31/09</u>
Non-interest bearing note payable to Calhoun County payable in full in fiscal year 2010	\$ -	\$ 500,000	\$ -	\$ 500,000

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2009 AND 2008**

---

**9. 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 2009 and 2008 for all operating leases was \$958,631 and \$935,153, respectively.

The following is a schedule by year of future minimum lease payments under operating leases as of December 31, 2009, that have initial or remaining lease terms in excess of one year:

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

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

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

As of December 31, 2007, the Pool ceased funding for the majority of their participants. The Pool ceased operations in early 2010 and paid patronage out to its prior members. As a result, the Hospital received approximately \$87,000. The Hospital has obtained alternate indemnified coverage for subsequent workers compensation claims.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2009 AND 2008**

---

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

The Hospital is partially self-insured for employee health claims. Losses of more than \$100,000 for each employee incurred each year are covered by excess insurance. Additionally, insurance covers aggregate expenses in excess of \$2,900,000. An estimated liability of \$106,908 and \$400,000, respectively, has been recorded for claims that are unpaid at December 31, 2009 and 2008, 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.

	Liability at	Current Year		
	Beginning	Claims and		
	of Year	Changes in	Claims	Liability at
		Estimates	Payments	End of Year
2008-2009	\$ 400,000	\$ 1,276,983	\$ (1,570,075)	\$106,908
2007-2008	\$ 426,054	\$ 1,650,035	\$ (1,676,089)	\$400,000

**Allowance for Doubtful Accounts** - The Hospital has advanced funds in order to induce health care professionals to practice in the local service area. These arrangements are more fully discussed in Note 12. Advances of this nature are subject to credit risk. The Hospital has evaluated these items for collectibility, but future changes in the economic situation of the borrowers could result in charges to income in order to adequately provide for their collection.

**10. EMPLOYEE BENEFITS**

**Compensated Absences** - As of December 31, 2009 and 2008, the Hospital has accrued compensated absence liability of \$318,620 and \$310,172, respectively. The Hospital does pay accrued vacation absences upon termination if proper notice and termination procedures are followed.

**Retirement Plan Description** - The Hospital provides retirement, disability, and death benefits for all of its full-time employees through a nontraditional defined benefit pension plan in the statewide Texas County and District Retirement System (TCDRS). The Board of Trustees of TCDRS is responsible for the administration of the statewide agent multiple-employer public employee retirement system consisting of 586 nontraditional defined benefit pension plans. TCDRS in the aggregate issues a comprehensive annual financial report (CAFR) on a calendar year basis. The CAFR is available upon written request from the TCDRS Board of Trustees at P.O. Box 2034, Austin, Texas 78768-2034.

The plan provisions are adopted by the governing body of the employer, within the options available in the Texas state statutes governing TCDRS (TCDRS Act). Members can retire at ages 60 and above with 8 or more years of service, with 30 years of service regardless of age, or when the sum of their age and years of service equals 75 or more. Members are vested after 8 years of service but must leave their accumulated deposits in the plan to receive any employer-financed benefit. Members who withdraw their personal deposits in a lump sum are not entitled to any amounts contributed by their employer.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2009 AND 2008**

---

**10. EMPLOYEE BENEFITS** *(Continued)*

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

**Funding Policy** - The employer has elected the annually determined contribution rate plan provisions of the TCDRS Act. The plan is funded by monthly contributions from both employee members and the employer based on the covered payroll of employee members. Under the TCDRS Act, the contribution rate of the employer is actuarially determined annually. It was 6% for 2009 and 5.32% for 2008.

The deposit rate payable by the employee members for 2009 and 2008 was the rate of 7% as adopted by the governing body of the employer. The employee deposit rate and the employer contribution rate may be changed by the governing body of the employer within the options available in the TCDRS Act.

**Annual Pension Cost** - For the employer's accounting years ending December 31, 2009 and 2008 the annual pension cost for the TCDRS plan for its employees was \$565,788 and \$457,065, respectively, at December 31, 2009 and 2008, and the total contributions were \$660,133 and \$626,685, respectively.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2009 AND 2008**

**10. 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, 2008 and 2007, the bases for determining the contribution rates for 2009 and 2008. The December 31, 2008, actuarial valuation is the most recent valuation.

**Actuarial Valuation Information**

Actuarial Valuation Date	12/31/2006	12/31/2007	12/31/2008
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, closed
Amortization period	30 years	30 years	20 years
Asset valuation method	SAF:10yr smoothed value ESF: Fund value	SAF:10yr smoothed value ESF: Fund value	SAF:10yr smoothed value ESF: Fund value
Actuarial Assumptions:			
Investment Return <sup>1</sup>	8.00%	8.00%	8.00%
Projected salary increases <sup>1</sup>	5.30%	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 (c)	UAAL Percentage of Covered Payroll ((b-a)/c)
12/31/06	\$14,542,201	\$13,998,317	\$ (543,884)	103.89%	\$ 7,992,099	(6.81)%
12/31/07	\$16,184,485	\$16,159,935	\$ (24,550)	100.15%	\$ 8,589,014	(0.29)%
12/31/08	\$16,198,771	\$17,473,676	\$ 1,274,905	92.70%	\$ 8,952,630	14.24 %

<sup>1</sup> Funding information may differ from prior year compliance data due to plan changes effective 1-01-2009.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2009 AND 2008**

**10. EMPLOYEE BENEFITS** *(Continued)*

<b>Trend Information for the Retirement Plan for the Employees of Memorial Medical Center</b>			
Accounting Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2006	\$ 295,708	100%	\$ -
12/31/2007	\$ 415,708	100%	\$ -
12/31/2008	\$ 457,065	100%	\$ -
12/31/2009	\$ 565,788	100%	\$ -

During the current year, the Hospital voted to terminate a separate defined contribution plan.

**11. 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>2009</u>	<u>2008</u>
Health care services	\$19,852,039	\$20,190,209
General and administrative	<u>2,750,540</u>	<u>2,567,227</u>
	<u>\$22,602,579</u>	<u>\$22,757,436</u>

**12. GUARANTEES**

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

The Hospital has advanced a total of \$479,650 under these agreements, with \$344,460 and \$214,237, respectively, remaining unamortized as of December 31, 2009 and 2008.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2009 AND 2008**

---

**13. MEMORIAL MEDICAL CENTER TRUST**

The Hospital is the beneficiary of a trust (corpus of \$500,000). The trust is administered by an independent trustee who periodically distributes net income of the trust to the Hospital. The Hospital is not entitled to access the corpus of the trust unless the trust is dissolved by the trustee. During fiscal year 2009 and 2008, the hospital received \$26,400 and \$50,000, respectively from this trust.

**14. DEFERRED REVENUE**

As of December 31, 2009 and 2008, the Hospital had \$222 and \$- in deferred revenue for the provision of indigent care. The Hospital receives funding 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.

**15. GAIN ON SALE OF ASSET**

Effective October 1, 2008, the Hospital sold its dialysis unit to an outside vendor for \$800,000. As a result of the sale the Hospital has recognized \$718,906 in other revenue. The total receivable from the county in relation to the sale was \$789,957. In relation to the sale, the Hospital disposed of fixed assets with a net book value of \$15,270 and inventory valued at \$65,824.

**16. FAIR VALUE MEASUREMENTS**

Financial Accounting Standards Board Statement No. 157, *Fair Value Measurements* (FASB Statement No. 157), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under FASB Statement No. 157 are described below:

**Level 1:** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Hospital has the ability to access.

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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2009 AND 2008**

---

**16. FAIR VALUE MEASUREMENTS** *(Continued)*

**Level 2:** Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified term, the Level 2 input must be observable for substantially the full term of the asset or liability.

**Level 3:** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at December 31, 2008.

**Cash and cash equivalents and short-term investments:** The carrying amounts reported in the balance sheets for cash and cash equivalents approximates its fair value.

**Patient accounts receivable, net:** The carrying amounts reported in the balance sheets for accounts receivable approximates its fair value.

**Accounts payable and accrued expenses:** The carrying amounts reported in the balance sheets for accounts payable and accrued expenses approximates its fair value.

**Estimated third-party payor settlements:** The carrying amounts reported in the balance sheets for estimated third-party payor settlements approximates its fair value.

**Deferred revenue:** The carrying amounts reported in the balance sheets for deferred revenue approximates its fair value.

**Debt:** The fair value of the Hospital's debt is estimated using discounted cash flow analyses, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements



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

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED**  
**DECEMBER 31, 2009 AND 2008**

---

**16. FAIR VALUE MEASUREMENTS** *(Continued)*

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Hospital believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumption to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, with the fair value hierarchy, the Hospital's carrying amounts and fair values as of December 31, 2009:

	2009			
	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Cash and cash equivalents	\$ 811,666	\$ 811,666	\$ -	\$ -
Short-Term investments	\$ 250,000	\$ 250,000	\$ -	\$ -
Patient accounts receivable, net	\$ 3,013,770	\$ -	\$ 3,013,770	\$ -
Estimated third-party payor settlements receivable	\$ 1,513,977	\$ -	\$ 1,513,977	\$ -
Accounts payable	\$ 433,114	\$ -	\$ 433,114	\$ -
Deferred revenue	\$ 222	\$ -	\$ 222	\$ -
Debt	\$ 1,860,301	\$ -	\$ 1,643,314	\$ -
Accrued expenses	\$ 916,006	\$ -	\$ 916,006	\$ -

**17. SUBSEQUENT EVENTS**

As of May 12, 2010, the Hospital ceased accepting new Home Health patients. A subsequent sale of the Home Health operations is contemplated with a closing date expected in July 2010.

During the current year, the Hospital was notified it was named a beneficiary in an estate. Subsequent to year end, the Hospital received approximately \$715,000 related to this estate.

*SUPPLEMENTAL INFORMATION*

**PARRISH • MOODY & FIKES, p.c.**

**CERTIFIED PUBLIC ACCOUNTANTS**

7901 WOODWAY DRIVE, SUITE 100

WACO, TEXAS 76712-3866

(254) 776-8244

FAX (254) 776-8277

E-MAIL: [pmf@pmfwaco.com](mailto:pmf@pmfwaco.com)

[www.pmfwaco.com](http://www.pmfwaco.com)

OFFICES IN:  
WACO & AUSTIN,  
TEXAS

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

---

To the Board of Trustees  
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, 2009 and 2008 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 30 through 31 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 audit 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, 2007 and 2006, were audited by us, and we expressed an unqualified opinion on them in our respectively dated reports, but we have not performed any auditing procedures since those dates.

*Parrish, Moody & Fikes, p.c.*

Waco, Texas  
June 16, 2010

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

	2006	2007	2008	2009
Inpatient revenue	\$ 10,119,284	\$ 12,164,899	\$ 14,514,771	\$ 13,399,301
Outpatient revenue	27,010,353	30,763,163	32,386,891	29,028,193
Home health revenue	1,145,826	1,181,710	1,068,830	1,127,079
<b>Total patient service revenues</b>	<u>38,275,463</u>	<u>44,109,772</u>	<u>47,970,492</u>	<u>43,554,573</u>
Contractual deductions	(10,605,318)	(14,570,304)	(15,800,301)	(11,150,758)
Bad debts and uncollected accounts	(2,726,384)	(3,455,299)	(4,289,629)	(5,845,633)
Charity care	(1,598,320)	(1,490,268)	(1,594,794)	(1,993,971)
Other deductions	(2,494,162)	(3,162,529)	(4,452,804)	(4,565,573)
Disproportionate share and other credits	529,061	434,620	367,319	691,474
<b>Total deductions from revenues</b>	<u>(16,895,123)</u>	<u>(22,243,780)</u>	<u>(25,770,209)</u>	<u>(22,864,461)</u>
<b>Net patient service revenues</b>	21,380,340	21,865,992	22,200,283	20,690,112
Other revenue	148,903	195,948	282,670	295,640
	<u>21,529,243</u>	<u>22,061,940</u>	<u>22,482,953</u>	<u>20,985,752</u>
Salaries and wages	8,086,880	8,636,632	9,047,308	9,485,308
Employee benefits	2,075,226	2,237,805	2,200,737	1,956,004
Payroll taxes	587,846	638,121	699,305	723,304
Purchased/contracted services	2,807,754	2,652,437	2,740,656	2,530,984
Payments to physicians - ER	961,899	1,004,564	1,039,908	1,139,665
Payments to physicians - other	134,815	63,151	63,993	185,289
Supplies	3,453,500	3,275,001	3,454,557	2,958,170
Education and training	113,996	37,634	44,646	83,123
Travel	139,119	136,373	126,893	118,381
Telephone and utilities	699,867	627,954	698,860	657,441
Maintenance and repairs	425,372	497,214	509,392	489,305
Rental expense	630,807	849,974	935,153	958,631
Insurance	244,505	223,663	186,751	196,786
Legal and professional	77,626	76,190	128,319	129,775
Depreciation and amortization	1,227,365	1,033,837	727,406	821,925
Other expenses	288,420	132,838	153,552	168,488
<b>Total operating expenses</b>	<u>21,954,997</u>	<u>22,123,388</u>	<u>22,757,436</u>	<u>22,602,579</u>
<b>Operating income (loss)</b>	<u>(425,754)</u>	<u>(61,448)</u>	<u>(274,483)</u>	<u>(1,616,827)</u>
Investment income	76,166	124,659	79,462	28,896
Interest expense	(28,966)	(54,286)	(30,074)	(40,872)
Contributions and grants	223,072	69,326	118,312	148,223
Other nonoperating revenue	150,066	-	718,906	-
<b>Increase (decrease) in net assets</b>	<u>\$ (5,416)</u>	<u>\$ 78,251</u>	<u>\$ 612,123</u>	<u>\$ (1,480,580)</u>

See independent auditor's report on supplemental information.

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

	2006	2007	2008	2009
Inpatient revenue	26.44 %	27.58 %	30.26 %	30.76 %
Outpatient revenue	70.57 %	69.74 %	67.51 %	66.65 %
Home health revenue	2.99 %	2.68 %	2.23 %	2.59 %
<b>Total patient service revenues</b>	<b>100.00 %</b>	<b>100.00 %</b>	<b>100.00 %</b>	<b>100.00 %</b>
Contractual deductions	(27.71)%	(33.03)%	(32.94)%	(25.60)%
Bad debts and uncollected accounts	(7.12)%	(7.83)%	(8.94)%	(13.42)%
Charity care	(4.18)%	(3.38)%	(3.32)%	(4.58)%
Other deductions	(6.52)%	(7.17)%	(9.28)%	(10.48)%
Disproportionate share and other credits	1.38 %	0.99 %	0.77 %	1.59 %
<b>Total deductions from revenues</b>	<b>(44.14)%</b>	<b>(50.43)%</b>	<b>(53.72)%</b>	<b>(52.50)%</b>
<b>Net patient service revenues</b>	<b>55.86 %</b>	<b>49.57 %</b>	<b>46.28 %</b>	<b>47.50 %</b>
Other revenue	0.39 %	0.44 %	0.59 %	0.68 %
	<u>56.25 %</u>	<u>50.02 %</u>	<u>46.87 %</u>	<u>48.18 %</u>
Salaries and wages	21.13 %	19.58 %	18.86 %	21.78 %
Employee benefits	5.42 %	5.07 %	4.59 %	4.49 %
Payroll taxes	1.54 %	1.45 %	1.46 %	1.66 %
Purchased/contracted services	7.34 %	6.01 %	5.71 %	5.81 %
Payments to physicians - ER	2.51 %	2.28 %	2.17 %	2.62 %
Payments to physicians - other	0.35 %	0.14 %	0.13 %	0.43 %
Supplies	9.02 %	7.42 %	7.20 %	6.79 %
Education and training	0.30 %	0.09 %	0.09 %	0.19 %
Travel	0.36 %	0.31 %	0.26 %	0.27 %
Telephone and utilities	1.83 %	1.42 %	1.46 %	1.51 %
Maintenance and repairs	1.11 %	1.13 %	1.06 %	1.12 %
Rental expense	1.65 %	1.93 %	1.95 %	2.20 %
Insurance	0.64 %	0.51 %	0.39 %	0.45 %
Legal and professional	0.20 %	0.17 %	0.27 %	0.30 %
Depreciation and amortization	3.21 %	2.34 %	1.52 %	1.89 %
Other expenses	0.75 %	0.30 %	0.32 %	0.39 %
<b>Total operating expenses</b>	<b>57.36 %</b>	<b>50.16 %</b>	<b>47.44 %</b>	<b>51.89 %</b>
<b>Operating income (loss)</b>	<b>(1.11)%</b>	<b>(0.14)%</b>	<b>(0.57)%</b>	<b>(3.71)%</b>
Investment income	0.20 %	0.28 %	0.17 %	0.07 %
Interest expense	(0.08)%	(0.12)%	(0.06)%	(0.09)%
Contributions and grants	0.58 %	0.16 %	0.25 %	0.34 %
Other nonoperating revenue	0.39 %	0.00 %	1.50 %	0.00 %
<b>Increase (decrease) in net assets</b>	<b>(0.01)%</b>	<b>0.18 %</b>	<b>1.28 %</b>	<b>(3.40)%</b>

See independent auditor's report on supplemental information.

