

**HAMILTON COUNTY HOSPITAL DISTRICT**  
*Hamilton, Texas*

***REPORT OF EXAMINATION***

***For the Years Ended  
September 30, 2010 and 2009***

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





# HAMILTON COUNTY HOSPITAL DISTRICT

## FINANCIAL STATEMENTS

YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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# HAMILTON COUNTY HOSPITAL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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Our discussion and analysis of Hamilton County Hospital District's (the "*District*") financial performance provides an overview of the District's financial activities for the fiscal years ending September 30, 2010 and 2009. Please read it in conjunction with the District's financial statements, which begin on page 6.

#### **Financial Highlights**

The District's net assets increased \$785,762, or 6.9%, as a result of this year's operations. Net assets also increased by \$1,168,720, or 11.4% from 2008 to 2009.

During 2010, the District had operating expenses that were \$154,938 less than the \$18,232,395 generated in net patient service revenue. For 2009, operating expenses were \$502,093 less than the \$16,811,192 generated in net patient service revenue.

#### **Using this Report of Examination**

The District'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 District, including resources held by the District 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 District's finances begins on page 6. One of the most important questions asked about the District's finances is, "What is the District'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 District 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 District's net assets and changes in them. One can think of the District's net assets — the difference between assets and liabilities — as one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District'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 District.

#### **The Statement of Cash Flows —**

The final required statement is the Statement of Cash Flows. This 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?"

# HAMILTON COUNTY HOSPITAL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

### YEARS ENDED SEPTEMBER 30, 2010 AND 2009

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#### The District's Net Assets

The District's net assets are the difference between its assets and liabilities reported in the Balance Sheets on page 6. The District's net assets increased \$785,762, or 6.9%, as a result of this year's operations. Net assets also increased by \$1,168,720, or 11.4% from 2008 to 2009 as shown in the following tables.

Table 1: Assets, Liabilities, and Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Assets:			
Current assets	\$ 8,058,758	\$ 9,723,538	\$ 7,796,940
Capital assets, net	14,749,162	13,595,955	14,126,549
Assets limited as to use - long-term	156,588	156,880	272,917
Restricted assets	2,525,346	212,235	774,088
Other assets	<u>113,032</u>	<u>118,296</u>	<u>123,560</u>
Total assets	<u>\$25,602,886</u>	<u>\$ 23,806,904</u>	<u>\$23,094,054</u>
Liabilities:			
Current liabilities, less current debt	\$ 2,963,629	\$ 1,384,051	\$ 1,433,273
Long-term debt outstanding	<u>10,451,824</u>	<u>11,021,182</u>	<u>11,427,830</u>
Total liabilities	<u>13,415,453</u>	<u>12,405,233</u>	<u>12,861,103</u>
Net assets:			
Invested in capital assets net of related debt	2,897,313	2,574,773	2,698,719
Restricted	2,525,346	212,235	774,088
Unrestricted	<u>6,764,774</u>	<u>8,614,663</u>	<u>6,760,144</u>
Total net assets	<u>12,187,433</u>	<u>11,401,671</u>	<u>10,232,951</u>
Total liabilities and net assets	<u>\$25,602,886</u>	<u>\$ 23,806,904</u>	<u>\$23,094,054</u>

**HAMILTON COUNTY HOSPITAL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

**Operating Results and Changes in the District's Net Assets**

Table 2: Operating Results and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Operating Revenues:			
Net patient service revenue	\$ 18,232,395	\$ 16,811,192	\$ 14,361,833
Other revenue	<u>589,062</u>	<u>555,609</u>	<u>390,802</u>
Total revenues, gains, and other support	<u>18,821,457</u>	<u>17,366,801</u>	<u>14,752,635</u>
Expenses:			
Operating expenses	17,233,842	15,417,883	13,378,739
Depreciation and amortization	<u>843,615</u>	<u>891,216</u>	<u>740,750</u>
Total expenses	<u>18,077,457</u>	<u>16,309,099</u>	<u>14,119,489</u>
Operating income (loss)	<u>744,000</u>	<u>1,057,702</u>	<u>633,146</u>
Nonoperating revenues (expenses):			
Property tax revenue	563,536	581,594	523,934
Noncapital grants and contributions	2,721	8,054	10,511
Investment income	79,213	99,872	178,154
Interest expense	(607,458)	(632,042)	(440,093)
Gain (loss) on sale of assets	<u>3,750</u>	<u>-</u>	<u>-</u>
Total nonoperating revenues (expenses)	<u>41,762</u>	<u>57,478</u>	<u>272,506</u>
Excess of revenues over expenses before capital grants and contributions	785,762	1,115,180	905,652
Capital grants and contributions	<u>-</u>	<u>53,540</u>	<u>55,780</u>
Increase (decrease) in net assets	785,762	1,168,720	961,432
Net assets, beginning of year	<u>11,401,671</u>	<u>10,232,951</u>	<u>9,271,519</u>
Net assets, end of year	<u>\$ 12,187,433</u>	<u>\$ 11,401,671</u>	<u>\$ 10,232,951</u>

**HAMILTON COUNTY HOSPITAL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**YEARS ENDED SEPTEMBER 30, 2010 AND 2009**

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**Operating Income (Loss) —**

The first component of the overall change in the District's net assets is its operating income (loss) — generally, the difference between net patient service revenue and the expenses incurred to perform those services. In each of the past two years, the District has reported an operating income. Operating income for 2010 decreased by \$313,702 or 29.7% over the income reported in 2009. Operating income in 2009 increased by \$424,556 or 67.1%.

The primary components of the decreased operating income for 2010 were the increase in salaries and wages and an increase in contracted service expense.

The primary components of the increased operating income for 2009 were the expansion of our service area and increased volume due to two additional providers.

**Nonoperating Revenues and Expenses —**

Nonoperating revenues consist primarily of property taxes levied by the District and various grants received by the District and investment income. Property tax revenue decreased in 2010 by \$18,058 or 3.1% and increased in 2009 by \$57,660 or 11.0%.

**The District's Cash Flows**

In 2010, the District's cash flow decreased as a result purchasing capital assets.

In 2009, the District's cash flow decreased as a result of the investment of a portion of cash reserves.

**Capital Asset and Debt Administration**

**Capital Assets** - At the end of 2010 and 2009, the District had \$14,749,162 and \$13,595,955, respectively, invested in capital assets, primarily including District buildings, equipment, and the Clinics. This amount represents a net increase (including additions and deductions) of \$1,153,207 or 8.5%, from 2009 and an decrease of \$530,594 or 3.8%, from 2008. More detail is presented at Note 7.

**Debt** - At year-end, the District had approximately 11.9 million in bonds, notes outstanding, and capital leases compared to 2009 debt balances of approximately \$11.0 million, as detailed further in Notes 8 and 9.

**Contacting the District's Financial Management**

This financial report is designed to provide our patients, suppliers, taxpayers, and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the District's management, at Hamilton County Hospital District, 400 North Brown, Hamilton, Texas 76531.

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**INDEPENDENT AUDITOR'S REPORT**

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To the Board of Directors  
Hamilton County Hospital District  
Hamilton, Texas

We have audited the accompanying balance sheets of Hamilton County Hospital District (the "*District*") as of September 30, 2010 and 2009, 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 District'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 Hamilton County Hospital District as of September 30, 2010 and 2009, 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  
March 8, 2011

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# HAMILTON COUNTY HOSPITAL DISTRICT

## BALANCE SHEETS

SEPTEMBER 30, 2010 AND 2009

Assets	2010	2009
<b>Current assets</b>		
Cash and cash equivalents	\$ 1,268,238	\$ 2,355,783
Short-term investments	830,421	3,082,243
Assets limited as to use - current	13,271	16,645
Patient accounts receivable, net	5,214,130	3,110,423
Estimated third-party payor settlements receivable	66,657	372,004
Other current assets	<u>666,041</u>	<u>786,440</u>
Total current assets	<u>8,058,758</u>	<u>9,723,538</u>
<b>Assets limited as to use - long-term</b>	156,588	156,880
<b>Restricted assets</b>	2,525,346	212,235
<b>Capital assets</b>		
Land	179,429	173,429
Construction in progress	1,414,157	-
Depreciable capital assets, net	<u>13,155,576</u>	<u>13,422,526</u>
Total capital assets, net	<u>14,749,162</u>	<u>13,595,955</u>
<b>Other assets</b>	<u>113,032</u>	<u>118,296</u>
	<u>\$ 25,602,886</u>	<u>\$ 23,806,904</u>

Liabilities and Net Assets	2010	2009
<b>Current liabilities</b>		
Notes payable	\$ 1,400,025	\$ -
Current portion of long-term debt	593,753	576,003
Accounts payable	411,735	372,902
Deferred revenue	9,595	11,913
Accrued expenses	<u>1,142,274</u>	<u>999,236</u>
Total current liabilities	<u>3,557,382</u>	<u>1,960,054</u>
<b>Long-term debt, net of current portion</b>	<u>9,858,071</u>	<u>10,445,179</u>
Total liabilities	<u>13,415,453</u>	<u>12,405,233</u>
<b>Commitments and contingencies</b>		
<b>Net assets</b>		
Invested in capital assets, net of related debt	2,897,313	2,574,773
Restricted	2,525,346	212,235
Unrestricted	<u>6,764,774</u>	<u>8,614,663</u>
Total net assets	<u>12,187,433</u>	<u>11,401,671</u>
	<u>\$ 25,602,886</u>	<u>\$ 23,806,904</u>

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

**HAMILTON COUNTY HOSPITAL DISTRICT**

**STATEMENTS OF REVENUES, EXPENSES,  
AND CHANGES IN NET ASSETS**

**FOR THE YEARS ENDED  
SEPTEMBER 30, 2010 AND 2009**

	2010	2009
<b>Unrestricted revenues, gains, and other support</b>		
Net patient service revenue	\$ 18,232,395	\$ 16,811,192
Other revenue	589,062	555,609
Total revenues, gains, and other support	<u>18,821,457</u>	<u>17,366,801</u>
<b>Expenses</b>		
Operating expenses	17,233,842	15,417,883
Depreciation and amortization	843,615	891,216
Total expenses	<u>18,077,457</u>	<u>16,309,099</u>
<b>Operating income (loss)</b>	<u>744,000</u>	<u>1,057,702</u>
<b>Nonoperating revenues (expenses)</b>		
Property tax revenue	563,536	581,594
Noncapital grants and contributions	2,721	8,054
Investment income	79,213	99,872
Interest expense	(607,458)	(632,042)
Gain (loss) on sale of assets	3,750	-
Total nonoperating revenues (expenses)	<u>41,762</u>	<u>57,478</u>
<b>Excess of revenues over expenses before capital grants and contributions</b>	785,762	1,115,180
<b>Capital grants and contributions</b>	<u>-</u>	<u>53,540</u>
<b>Increase (decrease) in net assets</b>	785,762	1,168,720
<b>Net assets, beginning of year</b>	<u>11,401,671</u>	<u>10,232,951</u>
<b>Net assets, end of year</b>	<u>\$ 12,187,433</u>	<u>\$ 11,401,671</u>

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

**HAMILTON COUNTY HOSPITAL DISTRICT**

**STATEMENTS OF CASH FLOWS**

**FOR THE YEARS ENDED  
SEPTEMBER 30, 2010 AND 2009**

	2010	2009
<b>Cash flows from operating activities</b>		
Cash received from patients and third-party payors	\$ 16,371,767	\$ 16,588,371
Other receipts and payments from operations, net	838,970	400,825
Cash paid to suppliers	(7,643,731)	(7,205,954)
Cash paid to employees	(8,215,373)	(7,314,318)
Cash paid for employee benefits and payroll taxes	(1,260,567)	(1,102,520)
Net cash provided by (used in) operating activities	<u>91,066</u>	<u>1,366,404</u>
<b>Cash flows from investing activities</b>		
Investment earnings	79,213	99,872
Purchases of noncash investments	(58,417)	(3,070,793)
Net cash provided by (used in) investing activities	<u>20,796</u>	<u>(2,970,921)</u>
<b>Cash flows from capital and related financing activities</b>		
Capital grants and contributions	-	53,540
Property taxes restricted for capital activities	-	-
Proceeds from issuance of long-term debt and notes payable	1,400,025	-
Principal payments on long-term debt and notes payable	(569,358)	(541,648)
Interest payments on long-term debt and notes payable	(609,316)	(633,732)
Gain on sale of capital assets	3,750	-
Purchase of capital assets	(1,991,559)	(220,358)
Net cash provided by (used in) capital and related financing activities	<u>(1,766,458)</u>	<u>(1,342,198)</u>
<b>Cash flows from noncapital financing activities</b>		
Property taxes	563,536	581,530
Noncapital grants and contributions	2,721	8,054
Net cash provided by (used in) noncapital financing activities	<u>566,257</u>	<u>589,584</u>
Net increase (decrease) in cash and cash equivalents	(1,088,339)	(2,357,131)
<b>Cash balance, beginning of year</b>	<u>2,741,543</u>	<u>5,098,674</u>
<b>Cash balance, end of year</b>	<u>\$ 1,653,204</u>	<u>\$ 2,741,543</u>

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

**HAMILTON COUNTY HOSPITAL DISTRICT**

**STATEMENTS OF CASH FLOWS  
(Continued)  
FOR THE YEARS ENDED  
SEPTEMBER 30, 2010 AND 2009**

	2010	2009
<b>Reconciliation of cash and equivalents to the balance sheets</b>		
Cash and equivalents presented under the following titles:		
Cash and cash equivalents	\$ 1,268,238	\$ 2,355,783
Assets limited as to use - current	13,271	16,645
Assets limited as to use - long-term	156,588	156,880
Restricted assets	215,107	212,235
	\$ 1,653,204	\$ 2,741,543
<b>Reconciliation of net income to net cash flows from operating activities</b>		
Operating income (loss)	\$ 744,000	\$ 1,057,702
Adjustments to reconcile operating income to net cash flows used in operating activities:		
Depreciation and amortization	843,615	891,216
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(2,103,707)	(8,151)
(Increase) decrease in other assets	120,399	(203,427)
Increase (decrease) in accounts payable and accrued expenses	181,412	(31,563)
(Increase) decrease in third-party payor settlements	305,347	(339,373)
	\$ 91,066	\$ 1,366,404
<b>Schedule of noncash investing, capital, and financing activities</b>		
Cost of new equipment under capital leases	\$ -	\$ 185,913
New obligations under capital leases	\$ -	\$ 185,913

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

# HAMILTON COUNTY HOSPITAL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
SEPTEMBER 30, 2010 AND 2009

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### 1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Organization

The Hamilton County Hospital District (the “*District*”) was created jointly by an election held May 5, 1990, and authorized by the State of Texas, Regular Legislative Session, 1989. The District is governed by the Board of Directors, elected by citizens residing in Precincts 1, 2, and 4 of Hamilton County, Texas. As dictated by the state law creating the District, the District is responsible for the health care of indigent residents of Hamilton County and is funded, in part, by an ad valorem tax on real and personal property within its jurisdiction.

#### Proprietary Fund Accounting

The District 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.

#### Ad Valorem Taxes

The District received approximately 1.19% and 1.31% for the years ending 2010 and 2009, respectively, of its financial support from ad valorem taxes. These funds were used to support operations.

Current taxes are received beginning in October of each year and become delinquent after January 31 of the following year.

#### 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 District has elected to apply the provisions of all relevant pronouncements of the Financial Accounting Standards Board (FASB).

# HAMILTON COUNTY HOSPITAL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
SEPTEMBER 30, 2010 AND 2009

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

On October 1, 2002, the District 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 are 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.”

The District 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 District for its basic financial statements as of and for the year ended September 30, 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 District, 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.

# HAMILTON COUNTY HOSPITAL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
SEPTEMBER 30, 2010 AND 2009

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

#### 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 District 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 Directors 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 District have been reclassified in the balance sheets at September 30, 2010 and 2009.

#### Capital Assets

Capital assets consist of property and equipment acquisitions 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.

# HAMILTON COUNTY HOSPITAL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
SEPTEMBER 30, 2010 AND 2009

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

#### Operating Revenues and Expenses

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

#### Net Patient Service Revenue

The District has agreements with third-party payors that provide for payments to the District 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.

#### Charity Care

The District 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 District does not pursue collection of amounts determined to qualify as charity care, they are not included in net patient service revenue.

#### Income Taxes

The District 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.

#### 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. Costs incurred in connection with the issuance of bonds are amortized on the straight-line method over the life of the bonds.

# HAMILTON COUNTY HOSPITAL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
SEPTEMBER 30, 2010 AND 2009

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

#### 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 District 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 disaster; and employee health, dental, and accidental benefits. Commercial insurance coverage is purchased for claims arising from such matters. Additionally, in 2006, the District became self-funded for professional and general liability.

#### 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 District has evaluated events and transactions for potential recognition or disclosure through March 8, 2011, the date the financial statements were available to be issued.

### 2. NET PATIENT SERVICE REVENUE

Medicare and Medicaid inpatient acute care services rendered to program beneficiaries are paid at prospectively determined rates per discharge. These rates vary according to a patient classification system that is based on clinical, diagnostic, and other factors. Inpatient nonacute services, certain outpatient services, and defined capital and medical education costs related to beneficiaries are paid based on a cost reimbursement methodology. The District is reimbursed for cost after submission of annual cost reports by the District and audits thereof by the fiscal intermediary. The District'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 District.

**HAMILTON COUNTY HOSPITAL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
SEPTEMBER 30, 2010 AND 2009**

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

Subject to the above mentioned review, the retroactive settlements receivable from (payable to) these programs at September 30, 2010 and 2009, respectively were \$66,657 and \$372,004. Adjustments to these amounts (if any) will be recognized in the year of determination.

	<u>2010</u>	<u>2009</u>
Current cost report receivable from (payable to) Medicare	\$ 51,788	\$ 295,772
Current cost report receivable from (payable to) Medicaid	14,869	41,994
Prior year cost report receivable from (payable to) Medicare	-	34,238
Net third-party settlements	<u>\$ 66,657</u>	<u>\$ 372,004</u>

The District 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 District did not advance any funds and received \$166,025 and \$270,239 for the periods October 1, 2009 through September 30, 2010 and October 1, 2008 through September 30, 2009, respectively. Amounts to be received in fiscal year 2011 are undetermined.

The outpatient prospective payment system (PPS) method, implemented in August 2000, provides for additional payments to help “hold harmless” certain qualifying hospitals by mitigating a portion of the adverse effects (if any) resulting from implementing the PPS program. Net patient service revenue for the years ended September 30, 2010 and 2009, includes no benefit from these “hold harmless” provisions.

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

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

# HAMILTON COUNTY HOSPITAL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
SEPTEMBER 30, 2010 AND 2009

### 3. UNCOMPENSATED CARE

The District 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 District 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 September 30, 2010 and 2009:

	<u>2010</u>	<u>2009</u>
Gross patient service revenue	\$46,228,189	\$ 43,195,786
Medicare and Medicaid contractual adjustments	(16,463,005)	(16,004,271)
Bad debts and uncollected accounts	(4,054,197)	(3,786,518)
Other third-party payors	(6,897,930)	(5,755,341)
Charity care	(769,326)	(1,174,460)
Disproportionate share and other credits	<u>188,664</u>	<u>335,996</u>
	<u>\$18,232,395</u>	<u>\$ 16,811,192</u>

### 4. LIMITED USE ASSETS AND INVESTMENTS

The components of assets limited as to use and investments at September 30, 2010 and 2009, are set forth in the following table.

	<u>2010</u>	<u>2009</u>
<b>Assets limited as to use - current</b>		
Cash and cash equivalents designated for employee benefit plan	<u>\$ 13,271</u>	<u>\$ 16,645</u>
<b>Assets limited as to use - long-term</b>		
Cash and cash equivalents designated for capital acquisition	<u>\$ 156,588</u>	<u>\$ 156,880</u>
<b>Short-term investments</b>		
Certificates of deposit maturing in less than one year	<u>\$ 830,421</u>	<u>\$ 3,082,243</u>

HAMILTON COUNTY HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
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5. RESTRICTED ASSETS

The components of restricted assets at September 30, 2010 and 2009, are set forth in the following table:

	<u>2010</u>	<u>2009</u>
<b>Cash and cash equivalents</b>		
Held by trustee for self-funded insurance	\$ 215,107	\$ 212,235
<b>Short-term investments</b>		
Held as collateral on line of credit	<u>2,310,239</u>	<u>-</u>
Total restricted assets	<u>\$ 2,525,346</u>	<u>\$ 212,235</u>

6. CONCENTRATIONS OF CREDIT RISK

**Accounts Receivable** - The District is located in Hamilton, Texas. The District grants credit without collateral to its patients, most of which 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>2010</u>	<u>2009</u>
Medicare	36%	44%
Medicaid	6%	4%
Other third-party payors	28%	28%
Patients	<u>30%</u>	<u>24%</u>
	<u>100%</u>	<u>100%</u>

	<u>2010</u>	<u>2009</u>
Accounts receivable - GROSS	\$ 12,433,120	\$ 8,481,383
Allowance for bad debts, uncollected accounts, and contractual adjustments	<u>(7,218,990)</u>	<u>(5,370,960)</u>
Accounts receivable - NET	<u>\$ 5,214,130</u>	<u>\$ 3,110,423</u>

HAMILTON COUNTY HOSPITAL DISTRICT

NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
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6. CONCENTRATIONS OF CREDIT RISK (Continued)

**Bank Accounts** - State law requires that bank accounts be collateralized by a pledge of sufficient market value of qualifying securities for amounts invested in excess of the insured amount. Insurance and collateralization are shown as follows:

	<u>2010</u>	<u>2009</u>
Insured (FDIC- demand deposits)	\$ 250,000	\$ 250,000
Insured (FDIC- time and savings)	551,581	516,670
Collateralized by pledged securities	<u>4,109,217</u>	<u>5,107,139</u>
Total	<u>\$ 4,910,798</u>	<u>\$ 5,873,809</u>
Carrying Value	<u>\$ 4,793,864</u>	<u>\$ 5,823,786</u>

The District'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. The District does have a formal investment policy that limits investments in non-government-backed and higher credit risk debt investments.

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

**Concentration of Credit Risk** – The District places no limit on the amount that may be invested in any one issuer.

**Physicians** - The District 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 District operations.

**Suppliers** - The District is dependent on a third-party provider of emergency care and certain other patient services whose contract is renewed annually. Failure to obtain favorable renewal of this contract or locate alternative suppliers could result in a future disruption of service to patients.

**HAMILTON COUNTY HOSPITAL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
SEPTEMBER 30, 2010 AND 2009**

**7. CAPITAL ASSETS**

A summary of capital assets for the years ended September 30, 2010 and 2009, follows:

	<u>Balance</u> <u>09/30/09</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	<u>Balance</u> <u>09/30/10</u>	<u>Depreciable</u> <u>Lives</u>
Capital assets not being depreciated:						
Land	\$ 173,429	\$ 6,000	\$ -	\$ -	\$ 179,429	
Construction in progress	<u>-</u>	<u>1,414,157</u>	<u>-</u>	<u>-</u>	<u>1,414,157</u>	
Total capital assets not being depreciated	<u>173,429</u>	<u>1,420,157</u>	<u>-</u>	<u>-</u>	<u>1,593,586</u>	
Other capital assets:						
Buildings and improvements	13,433,898	10,197	-	-	13,444,095	15-40 years
Equipment	4,159,908	561,205	(48,280)	-	4,672,833	3-20 years
Leased assets	<u>1,058,066</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,058,066</u>	5 years
Total other capital assets at historical cost	<u>18,651,872</u>	<u>571,402</u>	<u>(48,280)</u>	<u>-</u>	<u>19,174,994</u>	
Less accumulated depreciation for:						
Buildings and improvements	(1,624,756)	(348,236)	-	-	(1,972,992)	
Equipment	(3,437,601)	(443,856)	48,280	-	(3,833,177)	
Leased assets	<u>(166,989)</u>	<u>(46,260)</u>	<u>-</u>	<u>-</u>	<u>(213,249)</u>	
Total accumulated depreciation	<u>(5,229,346)</u>	<u>(838,352)</u>	<u>48,280</u>	<u>-</u>	<u>(6,019,418)</u>	
Other capital assets, net	<u>13,422,526</u>	<u>(266,950)</u>	<u>-</u>	<u>-</u>	<u>13,155,576</u>	
Total capital assets, net	<u>\$ 13,595,955</u>	<u>\$ 1,153,207</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 14,749,162</u>	

Construction in progress at September 30, 2010 includes amounts related to a fully integrated information technology system and architect fees related to an upcoming expansion project. The information technology system will be placed in service January 2011 at an estimated cost of \$1.5 million. During fiscal year 2010, the District paid architect fees for an expansion project. The District plans to add space to accommodate eight additional hospital beds and a mammography machine. The estimated cost of this expansion, including equipment and remodeling, is approximately \$1.8 million and is expected to be placed in service January 2012. The District is funding this expansion with cash reserves.

**HAMILTON COUNTY HOSPITAL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
SEPTEMBER 30, 2010 AND 2009**

**7. CAPITAL ASSETS (Continued)**

	Balance <u>09/30/08</u>	<u>Increases</u>	<u>Decreases</u>	<u>Transfers</u>	Balance <u>09/30/09</u>	Depreciable <u>Lives</u>
Capital assets not being depreciated:						
Land	\$ 173,429	\$ -	\$ -	\$ -	\$ 173,429	
Total capital assets not being depreciated	<u>173,429</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>173,429</u>	
Other capital assets:						
Buildings and improvements	13,433,898	-	-	-	13,433,898	15-40 years
Equipment	3,985,288	220,359	(45,739)	-	4,159,908	3-20 years
Leased assets	977,491	185,913	(105,338)	-	1,058,066	5 years
Total other capital assets at historical cost	<u>18,396,677</u>	<u>406,272</u>	<u>(151,077)</u>	<u>-</u>	<u>18,651,872</u>	
Less accumulated depreciation for:						
Buildings and improvements	(1,280,388)	(344,368)	-	-	(1,624,756)	
Equipment	(3,051,278)	(486,487)	100,164	-	(3,437,601)	
Leased assets	(111,891)	(55,098)	-	-	(166,989)	
Total accumulated depreciation	<u>(4,443,557)</u>	<u>(885,953)</u>	<u>100,164</u>	<u>-</u>	<u>(5,229,346)</u>	
Other capital assets, net	<u>13,953,120</u>	<u>(479,681)</u>	<u>(50,913)</u>	<u>-</u>	<u>13,422,526</u>	
Total capital assets, net	<u>\$ 14,126,549</u>	<u>\$ (479,681)</u>	<u>\$ (50,913)</u>	<u>\$ -</u>	<u>\$ 13,595,955</u>	

**8. NOTES PAYABLE**

A summary of notes payable at September 30, 2010 follows:

	Balance <u>09/30/09</u>	<u>Increases</u>	<u>Decreases</u>	Balance <u>09/30/10</u>
Line of credit payable to First State Bank of Central Texas, 3.35%, collateralized by certificates of deposit, unpaid principal and interest due July 2011.	\$ -	\$ 1,400,025	\$ -	\$ 1,400,025

**HAMILTON COUNTY HOSPITAL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
SEPTEMBER 30, 2010 AND 2009**

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

A summary of long-term debt and capital lease obligations for the years ended September 30, 2010 and 2009, follows:

	<u>Balance</u> <u>09/30/09</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>09/30/10</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Hamilton County Hospital District Revenue Bonds, Series 2003, maturing annually each February 15 in varying amounts beginning in 2005 and through 2028. Interest at 5.50% is payable each February 15 and August 15. Secured by a pledge of Hospital general revenues.	\$ 6,225,000	\$ -	\$ (115,000)	\$ 6,110,000	\$ 120,000
Hamilton County Hospital District Revenue Bonds, Series 2007, maturing annually each August 1 in varying amounts beginning in 2008 and through 2032. Interest at 5.75% is payable each February 1 and August 1. Secured by a pledge of Hospital general revenues.	3,845,000	-	(85,000)	3,760,000	85,000
Line of credit payable to First State Bank of Texas, 7.00%, collateralized by real property, payable in monthly installments of \$7,927, unpaid principal and interest due November 2012.	218,153	-	(96,996)	121,157	87,330
Note payable to Mills County State Bank, 4.75%, collateralized by CT scanner equipment, payable in monthly installments of \$6,035, unpaid principal and interest due February 2012.	159,284	-	(66,297)	92,987	69,451
Note payable to a physician, 3.25%, collateralized by real property in Hico, Texas, payable in monthly installments of \$5,546, unpaid principal and interest due October 2011.	133,899	-	(63,144)	70,755	70,755
Capital lease obligations, at varying rates of imputed interest from 0% to 9.28%, collateralized by leased equipment.	<u>439,846</u>	<u>-</u>	<u>(142,921)</u>	<u>296,925</u>	<u>161,217</u>
	<u>\$11,021,182</u>	<u>\$ -</u>	<u>\$ (569,358)</u>	<u>\$10,451,824</u>	<u>\$ 593,753</u>

**HAMILTON COUNTY HOSPITAL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
SEPTEMBER 30, 2010 AND 2009**

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

	<u>Balance</u> <u>09/30/08</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance</u> <u>09/30/09</u>	<u>Amounts</u> <u>Due Within</u> <u>One Year</u>
Hamilton County Hospital District Revenue Bonds, Series 2003, maturing annually each February 15 in varying amounts beginning in 2005 and through 2028. Interest at 5.50% is payable each February 15 and August 15. Secured by a pledge of Hospital general revenues.	\$ 6,330,000	\$ -	\$ (105,000)	\$ 6,225,000	\$ 115,000
Hamilton County Hospital District Revenue Bonds, Series 2007, maturing annually each August 1 in varying amounts beginning in 2008 and through 2032. Interest at 5.75% is payable each February 1 and August 1. Secured by a pledge of Hospital general revenues.	3,925,000	-	(80,000)	3,845,000	85,000
Line of credit payable to First State Bank of Texas, 7.00%, collateralized by real property, payable in monthly installments of \$7,927, unpaid principal and interest due November 2012.	297,125	-	(78,972)	218,153	88,787
Note payable to Mills County State Bank, 4.75%, collateralized by CT scanner equipment, payable in monthly installments of \$6,035, unpaid principal and interest due February 2012.	222,516	-	(63,232)	159,284	66,018
Note payable to First State Bank of Texas, 5.00%, collateralized by information technology equipment, payable in monthly installments of \$2,274, unpaid principal and interest due March 2009.	13,527	-	(13,527)	-	-
Note payable to a physician, 3.25%, collateralized by real property in Hico, Texas, payable in monthly installments of \$5,546, unpaid principal and interest due October 2011.	190,000	-	(56,101)	133,899	63,133
Capital lease obligations, at varying rates of imputed interest from 0% to 9.56%, collateralized by leased equipment.	<u>449,662</u>	<u>135,000</u>	<u>(144,816)</u>	<u>439,846</u>	<u>158,065</u>
	<u>\$11,427,830</u>	<u>\$ 135,000</u>	<u>\$ (541,648)</u>	<u>\$11,021,182</u>	<u>\$ 576,003</u>

**HAMILTON COUNTY HOSPITAL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
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**9. LONG-TERM DEBT AND CAPITAL LEASE OBLIGATIONS** *(Continued)*

**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.

Scheduled principal and interest payments on bonds, capital lease obligations, and other long-term debt are as follows:

Year Ending September 30,	Bond Requirements			Capital Leases			Other Long-Term Debt		
	Principal	Interest	Total	Principal	Interest	Total	Principal	Interest	Total
2011	\$ 205,000	\$ 548,950	\$ 753,950	\$ 161,217	\$ 19,692	\$ 180,909	\$ 227,536	\$ 12,351	\$ 239,887
2012	220,000	537,325	757,325	85,122	5,448	90,570	57,363	2,070	59,433
2013	315,000	522,513	837,513	38,291	2,316	40,607	-	-	-
2014	350,000	504,113	854,113	12,295	126	12,421	-	-	-
2015	375,000	484,050	859,050	-	-	-	-	-	-
2016-2020	2,225,000	2,074,600	4,299,600	-	-	-	-	-	-
2021-2025	2,920,000	1,368,313	4,288,313	-	-	-	-	-	-
2026-2030	2,695,000	499,963	3,194,963	-	-	-	-	-	-
2031-2032	565,000	49,163	614,163	-	-	-	-	-	-
	<u>\$ 9,870,000</u>	<u>\$ 6,588,990</u>	<u>\$ 16,458,990</u>	<u>\$ 296,925</u>	<u>\$ 27,582</u>	<u>\$ 324,507</u>	<u>\$ 284,899</u>	<u>\$ 14,421</u>	<u>\$ 299,320</u>

**Series 2003 Bonds** – Hamilton County Hospital District Revenue Bond, Series 2003, dated August 12, 2003, were issued in the principal amount of \$6,575,000 for the purpose of constructing a new hospital facility. Interest is payable semiannually at the interest rate of 5.50%. The bonds may be prepaid or redeemed in multiples of \$5,000 without premium. The bonds are secured by District gross revenues, except property tax revenue.

**Series 2007 Bonds** – Hamilton County Hospital District Revenue Bond, Series 2007, dated October 1, 2007, were issued in the principal amount of \$4,000,000 for the purpose of purchasing equipment and constructing buildings and improvements for use as part of the healthcare system. Interest is payable semiannually at the interest rate of 5.75%. The bonds may be prepaid or redeemed in multiples of \$5,000 without premium. The bonds are secured by District gross revenues, except property tax revenue.

In accordance with the covenants of the Series 2003 and 2007 bonds, the District is to produce a net operating income (adjusted to exclude depreciation, interest expense, and other items) of at least 125% of the maximum annual debt service on all obligations. Maximum annual debt service obligations are \$1,174,745 and net operating income as defined in the bond indenture agreement was \$2,236,835. The District is required to engage a management consultant in the event the above debt covenants are not met.

# HAMILTON COUNTY HOSPITAL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

FOR THE YEARS ENDED  
SEPTEMBER 30, 2010 AND 2009

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### 10. COMMITMENTS AND CONTINGENCIES

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

**Worker's Compensation Insurance** – The District purchases commercial insurance for worker's compensation. The insurance premiums are based on claim history where the insurer has the right to assess an additional payment after audit of certain District data that is submitted to the insurer.

**Liability Insurance** – In 2006, The District began a self-funding program for its general and professional liability insurance. A trust was set up with Wells Fargo Bank of Texas ("Trustee") whereby the District will prospectively self-fund amounts to defray losses and related expenses as may be incurred with respect to the liability risks encompassed by the plan. The Trustee is to receive, hold, invest, disburse, and otherwise manage and control such amounts. The amounts held for the District's self-funded insurance were \$215,107 and \$212,235 for the years ended September 30, 2010 and 2009, respectively. The District has accrued an estimated liability of \$205,663 for the years ended September 30, 2010 and 2009, respectively. Since the inception of the plan there have been no claims made.

**Tobacco Settlement** – The District received tobacco funds of approximately \$10,263 and \$21,854 during fiscal years 2010 and 2009, respectively.

### 11. AFFILIATION AGREEMENT

During the fiscal year 2010, the District signed an indigent care affiliation agreement with the Service Organization of Central Texas ("SOCT"), a non-profit corporation, and affiliated hospitals. This agreement was intended to increase funding for the Medicaid population and to access federal funding for the indigent population through the Texas Medicaid Supplemental Payment Program also known as the Private Upper Payment Limit Program. Under this program, the District contributes certain government funds to the State of Texas. SOCT then provides care to the Medicaid and non-Medicaid indigent in Hamilton County. These services for fiscal year 2010 were valued at approximately \$137,900. Some of this care was previously provided by the District. As part of the affiliation agreement, the District provides funding to the program; however, no such funding was made during fiscal year 2010. The District did fund \$693,228 immediately following year end for periods of service beginning August 2010 through approximately May 2011. The District therefore, amortized this amount over the service period resulting in \$83,652 of amortization expense at year end.

**HAMILTON COUNTY HOSPITAL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
SEPTEMBER 30, 2010 AND 2009**

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**12. RELATED PARTY TRANSACTIONS**

The District, from time to time, conducts business with organizations that are affiliated with Board members. This is often a result of a limited number of vendors in smaller communities. It was noted, during fiscal years 2010 and 2009, the District maintains funds at a bank where a Board member is employed. The District has a conflict of interest policy and the board member has fully disclosed the relationship.

**13. EMPLOYEE BENEFITS**

**Compensated Absences** - As of September 30, 2010 and 2009, the District has accrued a compensated absence liability of \$293,986 and \$271,461, respectively. The District does pay accrued vacation absences upon termination if proper notice and termination procedures are followed.

**Retirement Plan** - Effective January 1, 2008, the Hamilton General Hospital Retirement Plan and Trust ceased activity and all assets were transferred out of the plan. The new plan, The Hamilton County Hospital District Deferred Compensation Plan and Trust, is open to all employees employed on December 31, 2007. Those employees hired subsequent to December 31, 2007, must meet the following eligibility requirements: 1) 18 years of age, 2) one calendar year of service, and 3) classified as a regular full-time employee. The Participants may elect the deferral percentage in which they contribute to the plan up to \$15,000 a year. The District may elect a discretionary contribution at the end of the plan year. The salaries of active participants and contributions to the Hamilton County Hospital District Deferred Compensation Plan and Trust are approximated as follows:

	<u>2010</u>	<u>2009</u>
Participant salaries	\$ <u>3,021,615</u>	\$ <u>3,611,218</u>
Contributions by employees	\$ <u>154,684</u>	\$ <u>183,481</u>
Percent of participant salaries	<u>5.12 %</u>	<u>5.08 %</u>
Contributions by the District	\$ <u>78,776</u>	\$ <u>70,000</u>
Percent of participant salaries	<u>2.61 %</u>	<u>1.94 %</u>

**HAMILTON COUNTY HOSPITAL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**FOR THE YEARS ENDED  
SEPTEMBER 30, 2010 AND 2009**

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**14. FUNCTION EXPENSES**

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

	<u>2010</u>	<u>2009</u>
Health care services	\$ 16,638,202	\$ 15,107,706
General and administrative	<u>1,439,255</u>	<u>1,201,393</u>
	<u>\$ 18,077,457</u>	<u>\$ 16,309,099</u>

**15. DELINQUENT PROPERTY TAXES RECEIVABLE**

Property taxes are levied by October 1 of each year in conformity with Subtitle E of the Texas Property Tax Code. Taxes are due on receipt of the tax statement and are delinquent if not paid before February 1 of the year following the year of assessment. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed.

The District is authorized to levy a tax on property not to exceed \$.75 per \$100 valuation for the purpose of paying operating expenses and for debt service. The current tax rate is \$0.16140 and per \$100 valuation. Taxes for fiscal 2010 were levied on property within the District having an assessed valuation of approximately \$365 million.

The amount for uncollectible taxes of \$31,369 and \$25,474 at September 30, 2010 and 2009, respectively, are considered delinquent and have been fully allowed.

**16. AFFILIATED ORGANIZATIONS TRANSACTIONS**

**Hamilton General Hospital Healthcare Foundation** - Because of the nature in which the Foundation was formed, the Foundation and the Hospital are considered to be affiliated organizations. The mission of the Foundation, for which it was organized, is exclusively for charitable, scientific and educational purposes. The Foundation shall be operated exclusively as a tax-exempt organization. The Foundation may receive and maintain a fund or funds of real and personal property for the purpose of improving healthcare services through modernizing, expanding, and/or improving the facilities, equipment and services of healthcare facilities. The Hospital did not receive any donations from the Foundation in fiscal year 2010, however several fundraisers were held to raise funds for the upcoming mammography project. These funds are expected to be donated in fiscal year 2011. In fiscal year 2009, the Hospital received \$23,540 from the Foundation for purchasing pulmonary equipment.

*SUPPLEMENTAL INFORMATION*

**PARRISH • MOODY & FIKES, p.c.**  
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**INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTAL INFORMATION**

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To the Board of Directors  
Hamilton County Hospital District  
Hamilton, Texas

Our report on our audits of the basic financial statements of Hamilton County Hospital District (the "*District*") for the years ended September 30, 2010 and 2009, appears on page 5. Those audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The information on pages 28 through 29 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 September 30, 2008 and 2007, 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  
March 8, 2011

**Hamilton County Hospital District  
Supplemental Information  
Details of Operating Income  
Amounts  
For the Years Ended September 30,**

	2007	2008	2009	2010
Inpatient revenue	\$ 12,575,785	\$ 14,852,225	\$ 15,903,091	\$ 17,142,158
Outpatient revenue	13,392,944	17,161,054	22,220,553	22,058,548
Rural health clinic revenue	<u>2,720,888</u>	<u>4,023,199</u>	<u>5,072,142</u>	<u>7,027,483</u>
<b>Total patient service revenues</b>	<u>28,689,617</u>	<u>36,036,478</u>	<u>43,195,786</u>	<u>46,228,189</u>
Contractual deductions	(9,009,931)	(12,455,691)	(16,004,271)	(16,463,005)
Bad debts and uncollected accounts	(2,330,685)	(3,562,000)	(3,786,518)	(4,054,197)
Charity care	(573,298)	(871,680)	(1,174,460)	(769,326)
Other deductions	(3,094,705)	(5,000,763)	(5,755,341)	(6,897,930)
Disproportionate share and other credits	<u>177,838</u>	<u>215,489</u>	<u>335,996</u>	<u>188,664</u>
<b>Total deductions from revenues</b>	<u>(14,830,781)</u>	<u>(21,674,645)</u>	<u>(26,384,594)</u>	<u>(27,995,794)</u>
<b>Net patient service revenues</b>	13,858,836	14,361,833	16,811,192	18,232,395
Other revenue	<u>330,601</u>	<u>390,802</u>	<u>555,609</u>	<u>589,062</u>
	<u>14,189,437</u>	<u>14,752,635</u>	<u>17,366,801</u>	<u>18,821,457</u>
Salaries and wages	5,647,379	6,456,419	7,427,018	8,301,841
Employee benefits	755,650	452,468	575,461	655,387
Payroll taxes	87,617	407,499	529,538	605,829
Purchased/contracted services	669,780	738,280	1,048,171	1,618,329
Payments to physicians - ER	564,781	670,026	709,465	762,398
Payments to physicians - other	691,185	749,482	1,070,516	1,019,890
Supplies	2,153,154	2,474,050	2,594,230	2,882,899
Education and training	37,475	37,508	40,757	28,426
Travel	25,091	19,294	36,740	30,285
Telephone and utilities	510,234	537,497	563,251	555,077
Maintenance and repairs	289,953	328,465	315,311	238,788
Rental expense	154,238	126,363	175,310	216,567
Insurance	151,919	143,507	118,064	121,259
Legal and professional	45,860	61,836	52,871	56,698
Depreciation and amortization	824,204	740,750	891,216	843,615
Other expenses	<u>115,425</u>	<u>176,045</u>	<u>161,180</u>	<u>140,169</u>
<b>Total operating expenses</b>	<u>12,723,945</u>	<u>14,119,489</u>	<u>16,309,099</u>	<u>18,077,457</u>
<b>Operating income (loss)</b>	<u>1,465,492</u>	<u>633,146</u>	<u>1,057,702</u>	<u>744,000</u>
Property taxes and other government subsidies	494,772	523,934	581,594	563,536
Investment income	162,592	178,154	99,872	79,213
Interest expense	(419,284)	(440,093)	(632,042)	(607,458)
Contributions and grants	220,617	66,291	61,594	2,721
Other nonoperating revenue	<u>(39,171)</u>	<u>-</u>	<u>-</u>	<u>3,750</u>
<b>Increase (decrease) in net assets</b>	<u>\$ 1,885,018</u>	<u>\$ 961,432</u>	<u>\$ 1,168,720</u>	<u>\$ 785,762</u>

See independent auditors report on supplemental information.

**Hamilton County Hospital District  
Supplemental Information  
Details of Operating Income  
Percents  
For the Years Ended September 30,**

	2007	2008	2009	2010
Inpatient revenue	43.83 %	41.21 %	36.82 %	37.08 %
Outpatient revenue	46.68 %	47.62 %	51.44 %	47.72 %
Rural health clinic revenue	9.48 %	11.16 %	11.74 %	15.20 %
<b>Total patient service revenues</b>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>	<u>100.00 %</u>
Contractual deductions	(31.40)%	(34.56)%	(37.05)%	(35.61)%
Bad debts and uncollected accounts	(8.12)%	(9.88)%	(8.77)%	(8.77)%
Charity care	(2.00)%	(2.42)%	(2.72)%	(1.66)%
Other deductions	(10.79)%	(13.88)%	(13.32)%	(14.92)%
Disproportionate share and other credits	0.62 %	0.60 %	0.78 %	0.41 %
<b>Total deductions from revenues</b>	<u>(51.69)%</u>	<u>(60.15)%</u>	<u>(61.08)%</u>	<u>(60.56)%</u>
<b>Net patient service revenues</b>	48.31 %	39.85 %	38.92 %	39.44 %
Other revenue	1.15 %	1.08 %	1.29 %	1.27 %
	<u>49.46 %</u>	<u>40.94 %</u>	<u>40.20 %</u>	<u>40.71 %</u>
Salaries and wages	19.68 %	17.92 %	17.19 %	17.96 %
Employee benefits	2.63 %	1.26 %	1.33 %	1.42 %
Payroll taxes	0.31 %	1.13 %	1.23 %	1.31 %
Purchased/contracted services	2.33 %	2.05 %	2.43 %	3.50 %
Payments to physicians - ER	1.97 %	1.86 %	1.64 %	1.65 %
Payments to physicians - other	2.41 %	2.08 %	2.48 %	2.21 %
Supplies	7.50 %	6.87 %	6.01 %	6.24 %
Education and training	0.13 %	0.10 %	0.09 %	0.06 %
Travel	0.09 %	0.05 %	0.09 %	0.07 %
Telephone and utilities	1.78 %	1.49 %	1.30 %	1.20 %
Maintenance and repairs	1.01 %	0.91 %	0.73 %	0.52 %
Rental expense	0.54 %	0.35 %	0.41 %	0.47 %
Insurance	0.53 %	0.40 %	0.27 %	0.26 %
Legal and professional	0.16 %	0.17 %	0.12 %	0.12 %
Depreciation and amortization	2.87 %	2.06 %	2.06 %	1.82 %
Other expenses	0.40 %	0.49 %	0.37 %	0.30 %
<b>Total operating expenses</b>	<u>44.35 %</u>	<u>39.18 %</u>	<u>37.76 %</u>	<u>39.10 %</u>
<b>Operating income (loss)</b>	<u>5.11 %</u>	<u>1.76 %</u>	<u>2.45 %</u>	<u>1.61 %</u>
Property taxes and other government subsidies	1.72 %	1.45 %	1.35 %	1.22 %
Investment income	0.57 %	0.49 %	0.23 %	0.17 %
Interest expense	(1.46)%	(1.22)%	(1.46)%	(1.31)%
Contributions and grants	0.77 %	0.18 %	0.14 %	0.01 %
Other nonoperating revenue	(0.14)%	0.00 %	0.00 %	0.01 %
<b>Increase (decrease) in net assets</b>	<u>6.57 %</u>	<u>2.67 %</u>	<u>2.71 %</u>	<u>1.70 %</u>

See independent auditors report on supplemental information.

