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Form 990  Department of the Treasury Internal Revenue Service	Return of Organization Exempt From Income Tax Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except black lung benefit trust or private foundation) ▶ The organization may have to use a copy of this return to satisfy state reporting requirements	OMB No 1545-0047 2010 Open to Public Inspection
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A For the 2010 calendar year, or tax year beginning 01-01-2010 and ending 12-31-2010		
B Check if applicable <input type="checkbox"/> Address change <input type="checkbox"/> Name change <input type="checkbox"/> Initial return <input type="checkbox"/> Terminated <input type="checkbox"/> Amended return <input type="checkbox"/> Application pending	C Name of organization Hill Country Memorial Hospital	D Employer identification number 74-6083124
	Doing Business As	E Telephone number (830) 997-4353
	Number and street (or P O box if mail is not delivered to street address) PO Box 835	Room/suite
	G Gross receipts \$ 66,186,362	
	City or town, state or country, and ZIP + 4 Fredericksburg, TX 78624	
	F Name and address of principal officer	H(a) Is this a group return for affiliates? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No H(b) Are all affiliates included? <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No If "No," attach a list (see instructions) H(c) Group exemption number ▶
I Tax-exempt status <input checked="" type="checkbox"/> 501(c)(3) <input type="checkbox"/> 501(c) () ◀ (Insert no) <input type="checkbox"/> 4947(a)(1) or <input type="checkbox"/> 527		
J Website: ▶ www.hillcountrymemorial.com		

K Form of organization <input checked="" type="checkbox"/> Corporation <input type="checkbox"/> Trust <input type="checkbox"/> Association <input type="checkbox"/> Other ▶	L Year of formation 1966	M State of legal domicile TX
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Part I	Summary
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Activities & Governance	1 Briefly describe the organization's mission or most significant activities To provide health care services to the residents of the Hill Country area through the operation and maintenance of a community hospital																								
	2 Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets																								
	<table><tr><td>3 Number of voting members of the governing body (Part VI, line 1a)</td><td>3</td><td>14</td></tr><tr><td>4 Number of independent voting members of the governing body (Part VI, line 1b)</td><td>4</td><td>14</td></tr><tr><td>5 Total number of individuals employed in calendar year 2010 (Part V, line 2a)</td><td>5</td><td>762</td></tr><tr><td>6 Total number of volunteers (estimate if necessary)</td><td>6</td><td>120</td></tr><tr><td>7a Total unrelated business revenue from Part VIII, column (C), line 12</td><td>7a</td><td>0</td></tr><tr><td>b Net unrelated business taxable income from Form 990-T, line 34</td><td>7b</td><td></td></tr></table>	3 Number of voting members of the governing body (Part VI, line 1a)	3	14	4 Number of independent voting members of the governing body (Part VI, line 1b)	4	14	5 Total number of individuals employed in calendar year 2010 (Part V, line 2a)	5	762	6 Total number of volunteers (estimate if necessary)	6	120	7a Total unrelated business revenue from Part VIII, column (C), line 12	7a	0	b Net unrelated business taxable income from Form 990-T, line 34	7b							
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Revenue	<table><tr><td>8 Contributions and grants (Part VIII, line 1h)</td><td>Prior Year</td><td>Current Year</td></tr><tr><td>9 Program service revenue (Part VIII, line 2g)</td><td>342,349</td><td>1,907,674</td></tr><tr><td>10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)</td><td>32,067,301</td><td>44,901,267</td></tr><tr><td>11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)</td><td>-1,580,761</td><td>231,432</td></tr><tr><td>12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)</td><td>20,531,620</td><td>12,577,053</td></tr><tr><td></td><td>51,360,509</td><td>59,617,426</td></tr></table>	8 Contributions and grants (Part VIII, line 1h)	Prior Year	Current Year	9 Program service revenue (Part VIII, line 2g)	342,349	1,907,674	10 Investment income (Part VIII, column (A), lines 3, 4, and 7d)	32,067,301	44,901,267	11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e)	-1,580,761	231,432	12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12)	20,531,620	12,577,053		51,360,509	59,617,426						
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Expenses	<table><tr><td>13 Grants and similar amounts paid (Part IX, column (A), lines 1–3)</td><td></td><td>0</td></tr><tr><td>14 Benefits paid to or for members (Part IX, column (A), line 4)</td><td></td><td>0</td></tr><tr><td>15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)</td><td>29,976,142</td><td>30,248,922</td></tr><tr><td>16a Professional fundraising fees (Part IX, column (A), line 11e)</td><td></td><td>0</td></tr><tr><td>b Total fundraising expenses (Part IX, column (D), line 25) ▶⁰</td><td></td><td></td></tr><tr><td>17 Other expenses (Part IX, column (A), lines 11a–11d, 11f–24f)</td><td>20,631,002</td><td>23,886,078</td></tr><tr><td>18 Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)</td><td>50,607,144</td><td>54,135,000</td></tr><tr><td>19 Revenue less expenses Subtract line 18 from line 12</td><td>753,365</td><td>5,482,426</td></tr></table>	13 Grants and similar amounts paid (Part IX, column (A), lines 1–3)		0	14 Benefits paid to or for members (Part IX, column (A), line 4)		0	15 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5–10)	29,976,142	30,248,922	16a Professional fundraising fees (Part IX, column (A), line 11e)		0	b Total fundraising expenses (Part IX, column (D), line 25) ▶ ⁰			17 Other expenses (Part IX, column (A), lines 11a–11d, 11f–24f)	20,631,002	23,886,078	18 Total expenses Add lines 13–17 (must equal Part IX, column (A), line 25)	50,607,144	54,135,000	19 Revenue less expenses Subtract line 18 from line 12	753,365	5,482,426
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Net Assets or Fund Balances	<table><tr><td></td><td>Beginning of Current Year</td><td>End of Year</td></tr><tr><td>20 Total assets (Part X, line 16)</td><td>63,070,220</td><td>71,264,830</td></tr><tr><td>21 Total liabilities (Part X, line 26)</td><td>16,128,717</td><td>16,655,767</td></tr><tr><td>22 Net assets or fund balances Subtract line 21 from line 20</td><td>46,941,503</td><td>54,609,063</td></tr></table>		Beginning of Current Year	End of Year	20 Total assets (Part X, line 16)	63,070,220	71,264,830	21 Total liabilities (Part X, line 26)	16,128,717	16,655,767	22 Net assets or fund balances Subtract line 21 from line 20	46,941,503	54,609,063												
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Part II	Signature Block
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Under penalties of perjury, I declare that I have examined this return, including accompanying schedules and statements, and to the best of my knowledge and belief, it is true, correct, and complete. Declaration of preparer (other than officer) is based on all information of which preparer has any knowledge.

Sign Here	***** Signature of officer	2011-11-09 Date		
	Mark Jones CFO Type or print name and title			
Paid Preparer Use Only	Print/Type preparer's name Carol S McIntosh CPA	Preparer's signature Carol S McIntosh CPA	Date	Check if self-employed <input type="checkbox"/> PTIN
	Firm's name ▶ BKD LLP	Firm's EIN ▶		
	Firm's address ▶ 7901 Woodway Drive Suite 100 Waco, TX 76712	Phone no ▶ (254) 776-8244		

May the IRS discuss this return with the preparer shown above? (see instructions) ☐ Yes ☐ No

Part III

Statement of Program Service Accomplishments

Check if Schedule O contains a response to any question in this Part III

1

Briefly describe the organization's mission

To provide health care services to the residents of the Hill Country area through the operation and maintenance of a community hospital

2

Did the organization undertake any significant program services during the year which were not listed on the prior Form 990 or 990-EZ?

Yes

No

If "Yes," describe these new services on Schedule O

3

Did the organization cease conducting, or make significant changes in how it conducts, any program services?

Yes

No

If "Yes," describe these changes on Schedule O

4

Describe the exempt purpose achievements for each of the organization's three largest program services by expenses

Section 501(c)(3) and 501(c)(4) organizations and section 4947(a)(1) trusts are required to report the amount of grants and allocations to others, the total expenses, and revenue, if any, for each program service reported

4a

(Code) (Expenses \$ 41,817,691 including grants of \$) (Revenue \$ 42,102,355)

Medical Care Services - Provided health care services to local residents Days of care included Routine and Swing Bed - 11,345, Intensive and Critical Care Units - 1,481, Nursery - 898 Emergency room care was provided for 12,873 visits, 154,960 laboratory tests were performed, 42,353 imaging procedures were performed, 39,452 physical/occupational/speech therapy visits were provided, 4,365 operations were performed, and 528 babies were delivered

4b

(Code) (Expenses \$ 6,459,544 including grants of \$) (Revenue \$)

Charity care / County Indigent Care - Provided health care services at little or no-cost to specific individuals

4c

(Code) (Expenses \$ 1,372,774 including grants of \$) (Revenue \$ 1,778,997)

Home Care Services - Provide nurses and therapists to assist patients in their homes with education, assessment and observation of wounds, respiratory status, cardiac status and other body systems Nurses also administer IVs, wound care, colostomy care, and catheter care

4d

Other program services (Describe in Schedule O)

(Expenses \$ 788,992 including grants of \$) (Revenue \$ 1,019,915)

4e




















Total program service expenses

\$ 50,439,001

Form 990 (2010)

Part IV

Checklist of Required Schedules

	Yes	No
1 Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? If "Yes," complete Schedule A 	1 Yes	
2 Is the organization required to complete Schedule B, Schedule of Contributors (see instruction)? 	2 Yes	
3 Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? If "Yes," complete Schedule C, Part I 	3	No
4 Section 501(c)(3) organizations. Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? If "Yes," complete Schedule C, Part II 	4 Yes	
5 Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? If "Yes," complete Schedule C, Part III 	5	No
6 Did the organization maintain any donor advised funds or any similar funds or accounts where donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? If "Yes," complete Schedule D, Part I 	6	No
7 Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas or historic structures? If "Yes," complete Schedule D, Part II 	7	No
8 Did the organization maintain collections of works of art, historical treasures, or other similar assets? If "Yes," complete Schedule D, Part III 	8	No
9 Did the organization report an amount in Part X, line 21, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? If "Yes," complete Schedule D, Part IV 	9	No
10 Did the organization, directly or through a related organization, hold assets in term, permanent, or quasi-endowments? If "Yes," complete Schedule D, Part V 	10	No
11 If the organization's answer to any of the following questions is "Yes," then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable		
a Did the organization report an amount for land, buildings, and equipment in Part X, line 10? If "Yes," complete Schedule D, Part VI. 	11a Yes	
b Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VII. 	11b	No
c Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VIII. 	11c	No
d Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part IX. 	11d	No
e Did the organization report an amount for other liabilities in Part X, line 25? If "Yes," complete Schedule D, Part X. 	11e Yes	
f Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? If "Yes," complete Schedule D, Part X. 	11f Yes	
12a Did the organization obtain separate, independent audited financial statements for the tax year? If "Yes," complete Schedule D, Parts XI, XII, and XIII 	12a	No
b Was the organization included in consolidated, independent audited financial statements for the tax year? If "Yes," and if the organization answered 'No' to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional 	12b Yes	
13 Is the organization a school described in section 170(b)(1)(A)(ii)? If "Yes," complete Schedule E	13	No
14a Did the organization maintain an office, employees, or agents outside of the United States?	14a	No
b Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, and program service activities outside the United States? If "Yes," complete Schedule F, Parts I and IV	14b	No
15 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or assistance to any organization or entity located outside the U S ? If "Yes," complete Schedule F, Parts II and IV	15	No
16 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or assistance to individuals located outside the U S ? If "Yes," complete Schedule F, Parts III and IV	16	No
17 Did the organization report a total of more than \$15,000, of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? If "Yes," complete Schedule G, Part I (see instructions)	17	No
18 Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? If "Yes," complete Schedule G, Part II	18	No
19 Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? If "Yes," complete Schedule G, Part III	19	No
20a Did the organization operate one or more hospitals? If "Yes," complete Schedule H 	20a Yes	
b If "Yes" to line 20a, did the organization attach its audited financial statement to this return? Note. Some Form 990 filers that operate one or more hospitals must attach audited financial statements (see instructions)	20b Yes	

Part IV

Checklist of Required Schedules (continued)

21	Did the organization report more than \$5,000 of grants and other assistance to governments and organizations in the United States on Part IX, column (A), line 1? <i>If "Yes," complete Schedule I, Parts I and II</i>	21		No
22	Did the organization report more than \$5,000 of grants and other assistance to individuals in the United States on Part IX, column (A), line 2? <i>If "Yes," complete Schedule I, Parts I and III</i>	22		No
23	Did the organization answer "Yes" to Part VII, Section A, questions 3, 4, or 5, about compensation of the organization's current and former officers, directors, trustees, key employees, and highest compensated employees? <i>If "Yes," complete Schedule J</i>	23	Yes	
24a	Did the organization have a tax-exempt bond issue with an outstanding principal amount of more than \$100,000 as of the last day of the year, that was issued after December 31, 2002? <i>If "Yes," answer lines 24b-24d and complete Schedule K. If "No," go to line 25</i>	24a	Yes	
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	24b		No
c	Did the organization maintain an escrow account other than a refunding escrow at any time during the year to defease any tax-exempt bonds?	24c		No
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	24d		No
25a	Section 501(c)(3) and 501(c)(4) organizations. Did the organization engage in an excess benefit transaction with a disqualified person during the year? <i>If "Yes," complete Schedule L, Part I</i>	25a		No
b	Is the organization aware that it engaged in an excess benefit transaction with a disqualified person in a prior year, and that the transaction has not been reported on any of the organization's prior Forms 990 or 990-EZ? <i>If "Yes," complete Schedule L, Part I</i>	25b		No
26	Was a loan to or by a current or former officer, director, trustee, key employee, highly compensated employee, or disqualified person outstanding as of the end of the organization's tax year? <i>If "Yes," complete Schedule L, Part II</i>	26		No
27	Did the organization provide a grant or other assistance to an officer, director, trustee, key employee, substantial contributor, or a grant selection committee member, or to a person related to such an individual? <i>If "Yes," complete Schedule L, Part III</i>	27		No
28	Was the organization a party to a business transaction with one of the following parties? (see Schedule L, Part IV instructions for applicable filing thresholds, conditions, and exceptions)			
a	A current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28a		No
b	A family member of a current or former officer, director, trustee, or key employee? <i>If "Yes," complete Schedule L, Part IV</i>	28b		No
c	An entity of which a current or former officer, director, trustee, or key employee (or a family member thereof) was an officer, director, trustee, or direct or indirect owner? <i>If "Yes," complete Schedule L, Part IV</i>	28c		No
29	Did the organization receive more than \$25,000 in non-cash contributions? <i>If "Yes," complete Schedule M</i>	29		No
30	Did the organization receive contributions of art, historical treasures, or other similar assets, or qualified conservation contributions? <i>If "Yes," complete Schedule M</i>	30		No
31	Did the organization liquidate, terminate, or dissolve and cease operations? <i>If "Yes," complete Schedule N, Part I</i>	31		No
32	Did the organization sell, exchange, dispose of, or transfer more than 25% of its net assets? <i>If "Yes," complete Schedule N, Part II</i>	32		No
33	Did the organization own 100% of an entity disregarded as separate from the organization under Regulations sections 301.7701-2 and 301.7701-3? <i>If "Yes," complete Schedule R, Part I</i>	33		No
34	Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Parts II, III, IV, and V, line 1</i>	34	Yes	
35	Is any related organization a controlled entity within the meaning of section 512(b)(13)?	35		No
a	Did the organization receive any payment from or engage in any transaction with a controlled entity within the meaning of section 512(b)(13)? <i>If "Yes," complete Schedule R, Part V, line 2</i> <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No			
36	Section 501(c)(3) organizations. Did the organization make any transfers to an exempt non-charitable related organization? <i>If "Yes," complete Schedule R, Part V, line 2</i>	36		No
37	Did the organization conduct more than 5% of its activities through an entity that is not a related organization and that is treated as a partnership for federal income tax purposes? <i>If "Yes," complete Schedule R, Part VI</i>	37		No
38	Did the organization complete Schedule O and provide explanations in Schedule O for Part VI, lines 11 and 19? Note. All Form 990 filers are required to complete Schedule O	38	Yes	

Part V Statements Regarding Other IRS Filings and Tax Compliance					
Check if Schedule O contains a response to any question in this Part V <input type="checkbox"/>					
			Yes	No	
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable.	1a	228		
b	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable.	1b	0		
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	1c	Yes		
2a	Enter the number of employees reported on Form W-3, Transmittal of Wage and Tax Statements filed for the calendar year ending with or within the year covered by this return.	2a	762		
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns? Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions).	2b	Yes		
3a	Did the organization have unrelated business gross income of \$1,000 or more during the year?	3a			No
b	If "Yes," has it filed a Form 990-T for this year? If "No," provide an explanation in Schedule O.	3b			No
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)?	4a			No
b	If "Yes," enter the name of the foreign country: _____ See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts.				
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?	5a			No
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	5b			No
c	If "Yes" to line 5a or 5b, did the organization file Form 8886-T?	5c			No
6a	Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible?	6a			No
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	6b			No
7 Organizations that may receive deductible contributions under section 170(c).					
a	Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor?	7a			No
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?	7b			No
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?	7c			No
d	If "Yes," indicate the number of Forms 8282 filed during the year.	7d	0		
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?	7e			No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?	7f			No
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?	7g			No
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?	7h			No
8	Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations. Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?	8			No
9 Sponsoring organizations maintaining donor advised funds.					
a	Did the organization make any taxable distributions under section 4966?	9a			No
b	Did the organization make a distribution to a donor, donor advisor, or related person?	9b			No
10 Section 501(c)(7) organizations. Enter					
a	Initiation fees and capital contributions included on Part VIII, line 12.	10a			
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities.	10b			
11 Section 501(c)(12) organizations. Enter					
a	Gross income from members or shareholders.	11a			
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them).	11b			
12a	Section 4947(a)(1) non-exempt charitable trusts. Is the organization filing Form 990 in lieu of Form 1041?	12a			No
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year.	12b			
13 Section 501(c)(29) qualified nonprofit health insurance issuers.					
a	Is the organization licensed to issue qualified health plans in more than one state? Note. See the instructions for additional information the organization must report on Schedule O.	13a			No
b	Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans.	13b			
c	Enter the amount of reserves on hand.	13c			
14a	Did the organization receive any payments for indoor tanning services during the tax year?	14a			No
b	If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O.	14b			No

Part VI

Governance, Management, and Disclosure

For each "Yes" response to lines 2 through 7b below, and for a "No" response to lines 8a, 8b, or 10b below, describe the circumstances, processes, or changes in Schedule O. See instructions.
Check if Schedule O contains a response to any question in this Part VI

Section A. Governing Body and Management

			Yes	No
1a	Enter the number of voting members of the governing body at the end of the tax year	1a	14	
b	Enter the number of voting members included in line 1a, above, who are independent	1b	14	
2	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?	2		No
3	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person?	3		No
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?	4	Yes	
5	Did the organization become aware during the year of a significant diversion of the organization's assets?	5		No
6	Does the organization have members or stockholders?	6		No
7a	Does the organization have members, stockholders, or other persons who may elect one or more members of the governing body?	7a		No
b	Are any decisions of the governing body subject to approval by members, stockholders, or other persons?	7b		No
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following			
a	The governing body?	8a	Yes	
b	Each committee with authority to act on behalf of the governing body?	8b	Yes	
9	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O	9		No

Section B. Policies

(This Section B requests information about policies not required by the Internal Revenue Code.)

			Yes	No
10a	Does the organization have local chapters, branches, or affiliates?	10a		No
b	If "Yes," does the organization have written policies and procedures governing the activities of such chapters, affiliates, and branches to ensure their operations are consistent with those of the organization?	10b		No
11a	Has the organization provided a copy of this Form 990 to all members of its governing body before filing the form?	11a	Yes	
b	Describe in Schedule O the process, if any, used by the organization to review this Form 990			
12a	Does the organization have a written conflict of interest policy? If "No," go to line 13	12a	Yes	
b	Are officers, directors or trustees, and key employees required to disclose annually interests that could give rise to conflicts?	12b	Yes	
c	Does the organization regularly and consistently monitor and enforce compliance with the policy? If "Yes," describe in Schedule O how this is done	12c	Yes	
13	Does the organization have a written whistleblower policy?	13		No
14	Does the organization have a written document retention and destruction policy?	14	Yes	
15	Did the process for determining compensation of the following persons include a review and approval by independent persons, comparability data, and contemporaneous substantiation of the deliberation and decision?			
a	The organization's CEO, Executive Director, or top management official	15a	Yes	
b	Other officers or key employees of the organization	15b	Yes	
	If "Yes" to line 15a or 15b, describe the process in Schedule O (See instructions)			
16a	Did the organization invest in, contribute assets to, or participate in a joint venture or similar arrangement with a taxable entity during the year?	16a		No
b	If "Yes," has the organization adopted a written policy or procedure requiring the organization to evaluate its participation in joint venture arrangements under applicable federal tax law, and taken steps to safeguard the organization's exempt status with respect to such arrangements?	16b		No

Section C. Disclosure

17	List the States with which a copy of this Form 990 is required to be filed
18	Section 6104 requires an organization to make its Form 1023 (or 1024 if applicable), 990, and 990-T (501(c)(3)s only) available for public inspection. Indicate how you make these available. Check all that apply. <input type="checkbox"/> Own website <input type="checkbox"/> Another's website <input checked="" type="checkbox"/> Upon request
19	Describe in Schedule O whether (and if so, how), the organization makes its governing documents, conflict of interest policy, and financial statements available to the public. See Additional Data Table.
20	State the name, physical address, and telephone number of the person who possesses the books and records of the organization. Janice Menking 822 Reuben St Fredericksburg, TX 78624 (830) 997-1339

Part VII

Compensation of Officers, Directors, Trustees, Key Employees, Highest Compensated Employees, and Independent Contractors

Check if Schedule O contains a response to any question in this Part VII

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

1a Complete this table for all persons required to be listed Report compensation for the calendar year ending with or within the organization’s tax year

- List all of the organization’s **current** officers, directors, trustees (whether individuals or organizations), regardless of amount of compensation, and **current** key employees Enter -0- in columns (D), (E), and (F) if no compensation was paid
- List all of the organization’s **current** key employees, if any See instructions for definition of "key employee "
- List the organization’s five **current** highest compensated employees (other than an officer, director, trustee or key employee) who received reportable compensation (Box 5 of Form W-2 and/or Box 7 of Form 1099-MISC) of more than \$100,000 from the organization and any related organizations
- List all of the organization’s **former** officers, key employees, and highest compensated employees who received more than \$100,000 of reportable compensation from the organization and any related organizations
- List all of the organization’s **former directors or trustees** that received, in the capacity as a former director or trustee of the organization, more than \$10,000 of reportable compensation from the organization and any related organizations

List persons in the following order individual trustees or directors , institutional trustees, officers, key employees , highest compensated employees, and former such persons

Check this box if neither the organization nor any related organization compensated any current officer, director, or trustee

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(1) Tony Klein Director	0 00	X						0	0	0
(2) Thomas Hutton MD PhD Director	0 00	X						0	0	0
(3) Robin Duderstadt CNO	40 00			X				116,856	0	11,422
(4) Robert Smelser CFO Jan-Feb	0 00							136,611	0	18,210
(5) Randal Carlson Pharmacist	40 00					X		123,928	0	28
(6) Phil Maple MD Ex Com At Lg Mb	0 00	X						0	0	0
(7) Paul Urban Director	0 00	X						0	0	0
(8) Norm Nevins Director	0 00	X						0	0	0
(9) Michael Williams CEO	40 00			X				345,400	0	16,562
(10) Mary Post Pharmacist	0 00					X		116,651	0	22,028
(11) Mark Jones CFO Mar-Dec	40 00			X				152,152	0	5,869
(12) Marc Williamson Chairman	0 00	X		X				0	0	0
(13) LeAnn Myers Pharmacist	40 00					X		142,541	0	18,980
(14) Laura Cook Director	0 00	X						0	0	0
(15) Holly Jennings Pharmacist	40 00					X		124,395	0	5,058
(16) Gordon Sauer Vice Chairman	0 00	X		X				0	0	0

Part VII

Section A. Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees (continued)

(A) Name and Title	(B) Average hours per week (describe hours for related organizations in Schedule O)	(C) Position (check all that apply)						(D) Reportable compensation from the organization (W-2/1099-MISC)	(E) Reportable compensation from related organizations (W-2/1099-MISC)	(F) Estimated amount of other compensation from the organization and related organizations
		Individual trustee or director	Institutional Trustee	Officer	Key employee	Highest compensated employee	Former			
(17) Donald A Dodd Exec Dir, Clinical	40 00					X		128,170	0	6,328
(18) Debra Wallace COO	39 00			X				163,012	0	12,438
(19) Dave Campbell Director	0 00	X						0	0	0
(20) Daniel Robertson MD Director	0 00	X						0	0	0
(21) Dan Mittel Secretary	0 00	X		X				0	0	0
(22) Cristol Schoessow Director	0 00	X						0	0	0
(23) Chris Avery MD Director	0 00	X						0	0	0
(24) Brad Hardin Director	0 00	X						0	0	0
1b Sub-Total										
c Total from continuation sheets to Part VII, Section A										
d Total (add lines 1b and 1c)								1,549,716		116,923

2 Total number of individuals (including but not limited to those listed above) who received more than \$100,000 in reportable compensation from the organization 14

	Yes	No
3 Did the organization list any former officer, director or trustee, key employee, or highest compensated employee on line 1a? <i>If "Yes," complete Schedule J for such individual</i>		No
4 For any individual listed on line 1a, is the sum of reportable compensation and other compensation from the organization and related organizations greater than \$150,000? <i>If "Yes," complete Schedule J for such individual</i>	Yes	
5 Did any person listed on line 1a receive or accrue compensation from any unrelated organization or individual for services rendered to the organization? <i>If "Yes," complete Schedule J for such person</i>		No

Section B. Independent Contractors

1 Complete this table for your five highest compensated independent contractors that received more than \$100,000 of compensation from the organization

(A) Name and business address	(B) Description of services	(C) Compensation
Southwest Linen Service PO Box 1141 Stephenville, TX 76401	Housekeeping Svce	233,654
Siemens Medical Solutions USA Box 120001 Dept 0733 Dallas, TX 753120733	Maintenance Contract	269,715
RWD Technologies LLC 5521 Research Park Baltimore, MD 21228	Consulting	1,079,078
Rogers-O'Brien Construction Co 1901 Regal Row Dallas, TX 752352309	Construction	963,665
Jenschke Contracting 903 Durst-Maurer Rd Fredericksburg, TX 78624	Construction	198,116
2 Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 in compensation from the organization 61		

Part VIII

Statement of Revenue

				(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512, 513, or 514
Contributions, gifts, grants and other similar amounts	1a Federated campaigns 1a						
	b Membership dues 1b			847			
	c Fundraising events 1c						
	d Related organizations 1d			1,633,314			
	e Government grants (contributions) 1e						
	f All other contributions, gifts, grants, and similar amounts not included above 1f			273,513			
	g Noncash contributions included in lines 1a-1f \$						
	h Total. Add lines 1a-1f			1,907,674			
Program Service Revenue			Business Code				
	2a WIC Program Revenue		624100	295,672	295,672		
	b Wellness Ctr Svce Reve		624100	724,243	724,243		
	c Hospital Revenue		621110	42,102,355	42,102,355		
	d Home Health Care Revenue		621610	1,778,997	1,778,997		
	e						
	f All other program service revenue						
	g Total. Add lines 2a-2f			44,901,267			
Other Revenue	3 Investment income (including dividends, interest and other similar amounts)						
				132,644			132,644
	4 Income from investment of tax-exempt bond proceeds . . .			0			
	5 Royalties			0			
			(i) Real	(ii) Personal			
	6a Gross Rents		171,525				
	b Less rental expenses		115,091				
	c Rental income or (loss)		56,434				
	d Net rental income or (loss)			56,434	56,434		
			(i) Securities	(ii) Other			
	7a Gross amount from sales of assets other than inventory		98,788				
	b Less cost or other basis and sales expenses						
	c Gain or (loss)		98,788				
	d Net gain or (loss)			98,788	98,788		
	8a Gross income from fundraising events (not including \$ _____ of contributions reported on line 1c) See Part IV, line 18 a						
	b Less direct expenses b						
	c Net income or (loss) from fundraising events . . .			0			
	9a Gross income from gaming activities See Part IV, line 19 . . a						
	b Less direct expenses b						
	c Net income or (loss) from gaming activities . . .			0			
	10a Gross sales of inventory, less returns and allowances a			18,452,165			
	b Less cost of goods sold b			6,453,845			
c Net income or (loss) from sales of inventory . . .			11,998,320			11,998,320	
Miscellaneous Revenue		Business Code					
11a Thrift Store		453310	321,957			321,957	
b Engineering Svce Revenue		541900	19,500			19,500	
c Cafeteria		722210	164,094			164,094	
d All other revenue			16,748			16,748	
e Total. Add lines 11a-11d			522,299				
12 Total revenue. See Instructions			59,617,426	45,056,489		12,653,263	

Part IX

Statement of Functional Expenses

Section 501(c)(3) and 501(c)(4) organizations must complete all columns.

All other organizations must complete column (A) but are not required to complete columns (B), (C), and (D).

Do not include amounts reported on lines 6b, 7b, 8b, 9b, and 10b of Part VIII.		(A) Total expenses	(B) Program service expenses	(C) Management and general expenses	(D) Fundraising expenses
1	Grants and other assistance to governments and organizations in the U S See Part IV, line 21	0			
2	Grants and other assistance to individuals in the U S See Part IV, line 22	0			
3	Grants and other assistance to governments, organizations, and individuals outside the U S See Part IV, lines 15 and 16	0			
4	Benefits paid to or for members	0			
5	Compensation of current officers, directors, trustees, and key employees	978,532		978,532	
6	Compensation not included above, to disqualified persons (as defined under section 4958(f)(1)) and persons described in section 4958(c)(3)(B)	0			
7	Other salaries and wages	23,866,191	22,599,062	1,267,129	
8	Pension plan contributions (include section 401(k) and section 403(b) employer contributions)	568,492	534,057	34,435	
9	Other employee benefits	2,912,734	2,699,574	213,160	
10	Payroll taxes	1,922,973	1,753,713	169,260	
a	Fees for services (non-employees) Management	0			
b	Legal	76,574		76,574	
c	Accounting	158,713		158,713	
d	Lobbying	0			
e	Professional fundraising services See Part IV, line 17	0			
f	Investment management fees	0			
g	Other	4,727,742	4,301,792	425,950	
12	Advertising and promotion	0			
13	Office expenses	6,914,564	6,872,100	42,464	
14	Information technology	0			
15	Royalties	0			
16	Occupancy	1,131,671	1,119,620	12,051	
17	Travel	223,845	164,574	59,271	
18	Payments of travel or entertainment expenses for any federal, state, or local public officials	0			
19	Conferences, conventions, and meetings	257,667	236,287	21,380	
20	Interest	485,247	485,247		
21	Payments to affiliates	0			
22	Depreciation, depletion, and amortization	4,349,963	4,349,116	847	
23	Insurance	0			
24	Other expenses Itemize expenses not covered above (List miscellaneous expenses in line 24f If line 24f amount exceeds 10% of line 25, column (A) amount, list line 24f expenses on Schedule O)				
a	Thrift Store other oper exp	6,425		6,425	
b	Thrift Store Mtce and repairs	1,810		1,810	
c	Other operating expenses	786,232	558,704	227,528	
d	Maintenance and Repairs	2,013,285	2,012,815	470	
e	Bad debts	2,752,340	2,752,340		
f	All other expenses	0			
25	Total functional expenses. Add lines 1 through 24f	54,135,000	50,439,001	3,695,999	0
26	Joint costs. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720) Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation				

Part X

Balance Sheet

					(A)		(B)
					Beginning of year		End of year
Assets	1	Cash—non-interest-bearing			2,212,282	1	5,375,588
	2	Savings and temporary cash investments			9,243,220	2	8,542,145
	3	Pledges and grants receivable, net				3	0
	4	Accounts receivable, net			10,295,023	4	14,035,050
	5	Receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L				5	0
	6	Receivables from other disqualified persons (as defined under section 4958(f)(1)), persons described in section 4958(c)(3)(B), and contributing employers, and sponsoring organizations of section 501(c)(9) voluntary employees' beneficiary organizations (see instructions). Schedule L				6	0
	7	Notes and loans receivable, net				7	0
	8	Inventories for sale or use			1,546,151	8	1,303,439
	9	Prepaid expenses and deferred charges			1,759,217	9	1,781,478
	10a	Land, buildings, and equipment: cost or other basis. Complete Part VI of Schedule D.	10a	78,135,797			
	b	Less: accumulated depreciation	10b	39,423,711	37,302,671	10c	38,712,086
	11	Investments—publicly traded securities				11	0
	12	Investments—other securities. See Part IV, line 11				12	0
	13	Investments—program-related. See Part IV, line 11				13	0
	14	Intangible assets				14	0
	15	Other assets. See Part IV, line 11			711,656	15	1,515,044
16	Total assets. Add lines 1 through 15 (must equal line 34)			63,070,220	16	71,264,830	
Liabilities	17	Accounts payable and accrued expenses			6,022,931	17	7,126,783
	18	Grants payable				18	
	19	Deferred revenue				19	
	20	Tax-exempt bond liabilities			9,805,786	20	9,228,984
	21	Escrow or custodial account liability. Complete Part IV of Schedule D				21	
	22	Payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L				22	
	23	Secured mortgages and notes payable to unrelated third parties				23	
	24	Unsecured notes and loans payable to unrelated third parties				24	
	25	Other liabilities. Complete Part X of Schedule D			300,000	25	300,000
	26	Total liabilities. Add lines 17 through 25			16,128,717	26	16,655,767
Net Assets or Fund Balances	Organizations that follow SFAS 117, check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.						
	27	Unrestricted net assets			46,941,503	27	54,609,063
	28	Temporarily restricted net assets				28	
	29	Permanently restricted net assets				29	
	Organizations that do not follow SFAS 117, check here <input type="checkbox"/> and complete lines 30 through 34.						
	30	Capital stock or trust principal, or current funds				30	
	31	Paid-in or capital surplus, or land, building or equipment fund				31	
	32	Retained earnings, endowment, accumulated income, or other funds				32	
	33	Total net assets or fund balances			46,941,503	33	54,609,063
34	Total liabilities and net assets/fund balances			63,070,220	34	71,264,830	

Part XI Reconciliation of Net Assets

Check if Schedule O contains a response to any question in this Part XI

1	Total revenue (must equal Part VIII, column (A), line 12)	1	59,617,426
2	Total expenses (must equal Part IX, column (A), line 25)	2	54,135,000
3	Revenue less expenses Subtract line 2 from line 1	3	5,482,426
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	46,941,503
5	Other changes in net assets or fund balances (explain in Schedule O)	5	2,185,134
6	Net assets or fund balances at end of year Combine lines 3, 4, and 5 (must equal Part X, line 33, column (B))	6	54,609,063

Part XII Financial Statements and Reporting

Check if Schedule O contains a response to any question in this Part XII

		Yes	No
1	Accounting method used to prepare the Form 990 <input type="checkbox"/> Cash <input checked="" type="checkbox"/> Accrual <input type="checkbox"/> Other If the organization changed its method of accounting from a prior year or checked "Other," explain in Schedule O		
2a	Were the organization's financial statements compiled or reviewed by an independent accountant?		No
b	Were the organization's financial statements audited by an independent accountant?	Yes	
c	If "Yes," to 2a or 2b, does the organization have a committee that assumes responsibility for oversight of the audit, review, or compilation of its financial statements and selection of an independent accountant? If the organization changed either its oversight process or selection process during the tax year, explain in Schedule O	Yes	
d	If "Yes" to line 2a or 2b, check a box below to indicate whether the financial statements for the year were issued on a separate basis, consolidated basis, or both <input type="checkbox"/> Separate basis <input checked="" type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separated basis		
3a	As a result of a federal award, was the organization required to undergo an audit or audits as set forth in the Single Audit Act and OMB Circular A-133?	Yes	
b	If "Yes," did the organization undergo the required audit or audits? If the organization did not undergo the required audit or audits, explain why in Schedule O and describe any steps taken to undergo such audits	Yes	

SCHEDULE A

(Form 990 or 990EZ)

Department of the Treasury
Internal Revenue Service

Public Charity Status and Public Support

Complete if the organization is a section 501(c)(3) organization or a section 4947(a)(1) nonexempt charitable trust.

▶ Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.

OMB No 1545-0047

2010

Open to Public
Inspection

Name of the organization Hill Country Memorial Hospital	Employer identification number 74-6083124
--	--

Part I

Reason for Public Charity Status (All organizations must complete this part.) See instructions

The organization is not a private foundation because it is (For lines 1 through 11, check only one box)

- 1

☐

A church, convention of churches, or association of churches described in **section 170(b)(1)(A)(i).**
- 2

☐

A school described in **section 170(b)(1)(A)(ii).** (Attach Schedule E)
- 3

☒

A hospital or a cooperative hospital service organization described in **section 170(b)(1)(A)(iii).**
- 4

☐

A medical research organization operated in conjunction with a hospital described in **section 170(b)(1)(A)(iii).** Enter the hospital's name, city, and state
- 5

☐

An organization operated for the benefit of a college or university owned or operated by a governmental unit described in **section 170(b)(1)(A)(iv).** (Complete Part II)
- 6

☐

A federal, state, or local government or governmental unit described in **section 170(b)(1)(A)(v).**
- 7

☐

An organization that normally receives a substantial part of its support from a governmental unit or from the general public described in **section 170(b)(1)(A)(vi)** (Complete Part II)
- 8

☐

A community trust described in **section 170(b)(1)(A)(vi)** (Complete Part II)
- 9

☐

An organization that normally receives (1) more than 33 1/3% of its support from contributions, membership fees, and gross receipts from activities related to its exempt functions—subject to certain exceptions, and (2) no more than 33 1/3% of its support from gross investment income and unrelated business taxable income (less section 511 tax) from businesses acquired by the organization after June 30, 1975 See **section 509(a)(2).** (Complete Part III)
- 10

☐

An organization organized and operated exclusively to test for public safety See**section 509(a)(4).**
- 11

☐

An organization organized and operated exclusively for the benefit of, to perform the functions of, or to carry out the purposes of one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2) See **section 509(a)(3).** Check the box that describes the type of supporting organization and complete lines 11e through 11h

a

☐

Type I

b

☐

Type II

c

☐

Type III - Functionally integrated

d

☐

Type III - Other
- e

☐

By checking this box, I certify that the organization is not controlled directly or indirectly by one or more disqualified persons other than foundation managers and other than one or more publicly supported organizations described in section 509(a)(1) or section 509(a)(2)
- f

☐

If the organization received a written determination from the IRS that it is a Type I, Type II or Type III supporting organization, check this box
- g

☐

Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?
(i) a person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the the supported organization?
(ii) a family member of a person described in (i) above?
(iii) a 35% controlled entity of a person described in (i) or (ii) above?
- h

☐

Provide the following information about the supported organization(s)

	Yes	No
11g(i)		
11g(ii)		
11g(iii)		

(i) Name of supported organization	(ii) EIN	(iii) Type of organization (described on lines 1- 9 above or IRC section (see instructions))	(iv) Is the organization in col (i) listed in your governing document?		(v) Did you notify the organization in col (i) of your support?		(vi) Is the organization in col (i) organized in the U S ?		(vii) Amount of support
			Yes	No	Yes	No	Yes	No	
Total									

Part II

Support Schedule for Organizations Described in Sections 170(b)(1)(A)(iv) and 170(b)(1)(A)(vi)

(Complete only if you checked the box on line 5, 7, or 8 of Part I or if the organization failed to qualify under Part III. If the organization fails to qualify under the tests listed below, please complete Part III.)

Section A. Public Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
3 The value of services or facilities furnished by a governmental unit to the organization without charge						
4 Total. Add lines 1 through 3						
5 The portion of total contributions by each person (other than a governmental unit or publicly supported organization) included on line 1 that exceeds 2% of the amount shown on line 11, column (f)						
6 Public Support. Subtract line 5 from line 4						

Section B. Total Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
7 Amounts from line 4						
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV)						
11 Total support (Add lines 7 through 10)						
12 Gross receipts from related activities, etc (See instructions)					12	
13 First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here ▶						

Section C. Computation of Public Support Percentage		
14 Public Support Percentage for 2010 (line 6 column (f) divided by line 11 column (f))	14	
15 Public Support Percentage for 2009 Schedule A, Part II, line 14	15	
16a 33 1/3% support test—2010. If the organization did not check the box on line 13, and line 14 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization ▶		
b 33 1/3% support test—2009. If the organization did not check the box on line 13 or 16a, and line 15 is 33 1/3% or more, check this box and stop here. The organization qualifies as a publicly supported organization ▶		
17a 10%-facts-and-circumstances test—2010. If the organization did not check a box on line 13, 16a, or 16b and line 14 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization ▶		
b 10%-facts-and-circumstances test—2009. If the organization did not check a box on line 13, 16a, 16b, or 17a and line 15 is 10% or more, and if the organization meets the "facts and circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts and circumstances" test The organization qualifies as a publicly supported organization ▶		
18 Private Foundation If the organization did not check a box on line 13, 16a, 16b, 17a or 17b, check this box and see instructions ▶		

Part IIISupport Schedule for Organizations Described in Section 509(a)(2)
(Complete only if you checked the box on line 9 of Part I or if the organization failed to qualify under Part II. If the organization fails to qualify under the tests listed below, please complete Part II.)

Section A. Public Support						
Calendar year (or fiscal year beginning in) 	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
1 Gifts, grants, contributions, and membership fees received (Do not include any "unusual grants.")						
2 Gross receipts from admissions, merchandise sold or services performed, or facilities furnished in any activity that is related to the organization's tax-exempt purpose						
3 Gross receipts from activities that are not an unrelated trade or business under section 513						
4 Tax revenues levied for the organization's benefit and either paid to or expended on its behalf						
5 The value of services or facilities furnished by a governmental unit to the organization without charge						
6 Total. Add lines 1 through 5						
7a Amounts included on lines 1, 2, and 3 received from disqualified persons						
b Amounts included on lines 2 and 3 received from other than disqualified persons that exceed the greater of \$5,000 or 1% of the amount on line 13 for the year						
c Add lines 7a and 7b						
8 Public Support (Subtract line 7c from line 6)						

Section B. Total Support						
Calendar year (or fiscal year beginning in) 	(a) 2006	(b) 2007	(c) 2008	(d) 2009	(e) 2010	(f) Total
9 Amounts from line 6						
10a Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
b Unrelated business taxable income (less section 511 taxes) from businesses acquired after June 30, 1975						
c Add lines 10a and 10b						
11 Net income from unrelated business activities not included in line 10b, whether or not the business is regularly carried on						
12 Other income. Do not include gain or loss from the sale of capital assets (Explain in Part IV.)						
13 Total support (Add lines 9, 10c, 11 and 12.)						
14 First Five Years If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a section 501(c)(3) organization, check this box and stop here 						

Section C. Computation of Public Support Percentage		
15 Public Support Percentage for 2010 (line 8 column (f) divided by line 13 column (f))	15	
16 Public support percentage from 2009 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage		
17 Investment income percentage for 2010 (line 10c column (f) divided by line 13 column (f))	17	
18 Investment income percentage from 2009 Schedule A, Part III, line 17	18	
19a 33 1/3% support tests—2010. If the organization did not check the box on line 14, and line 15 is more than 33 1/3% and line 17 is not more than 33 1/3%, check this box and stop here . The organization qualifies as a publicly supported organization 		
b 33 1/3% support tests—2009. If the organization did not check a box on line 14 or line 19a, and line 16 is more than 33 1/3% and line 18 is not more than 33 1/3%, check this box and stop here . The organization qualifies as a publicly supported organization 		
20 Private Foundation If the organization did not check a box on line 14, 19a or 19b, check this box and see instructions 		

Part IV

Supplemental Information. Supplemental Information. Complete this part to provide the explanations required by Part II, line 10; Part II, line 17a or 17b; and Part III, line 12. Also complete this part for any additional information. (See instructions).

Facts And Circumstances Test

SCHEDULE C
(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Political Campaign and Lobbying Activities

For Organizations Exempt From Income Tax Under section 501(c) and section 527
▶ **Complete if the organization is described below.**
▶ **Attach to Form 990 or Form 990-EZ. ▶ See separate instructions.**

OMB No 1545-0047

2010

Open to Public Inspection

If the organization answered “Yes,” to Form 990, Part IV, Line 3, or Form 990-EZ, Part V, line 46 (Political Campaign Activities), then

- Section 501(c)(3) organizations Complete Parts I-A and B Do not complete Part I-C
- Section 501(c) (other than section 501(c)(3)) organizations Complete Parts I-A and C below Do not complete Part I-B
- Section 527 organizations Complete Part I-A only

If the organization answered “Yes,” to Form 990, Part IV, Line 4, or Form 990-EZ, Part VI, line 47 (Lobbying Activities), then

- Section 501(c)(3) organizations that have filed Form 5768 (election under section 501(h)) Complete Part II-A Do not complete Part II-B
- Section 501(c)(3) organizations that have NOT filed Form 5768 (election under section 501(h)) Complete Part II-B Do not complete Part II-A

If the organization answered “Yes,” to Form 990, Part IV, Line 5 (Proxy Tax) or Form 990-EZ, Part V, line 35a (Proxy Tax), then

- Section 501(c)(4), (5), or (6) organizations Complete Part III

Name of the organization Hill Country Memorial Hospital	Employer identification number 74-6083124
--	--

Part I-A Complete if the organization is exempt under section 501(c) or is a section 527 organization.

1	Provide a description of the organization’s direct and indirect political campaign activities in Part IV	
2	Political expenditures	▶ \$ _____
3	Volunteer hours	_____

Part I-B Complete if the organization is exempt under section 501(c)(3).

1	Enter the amount of any excise tax incurred by the organization under section 4955	▶ \$ _____
2	Enter the amount of any excise tax incurred by organization managers under section 4955	▶ \$ _____
3	If the organization incurred a section 4955 tax, did it file Form 4720 for this year?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
4a	Was a correction made?	<input type="checkbox"/> Yes <input checked="" type="checkbox"/> No
b	If "Yes," describe in Part IV	

Part I-C Complete if the organization is exempt under section 501(c) except section 501(c)(3).

1	Enter the amount directly expended by the filing organization for section 527 exempt function activities	▶ \$ _____
2	Enter the amount of the filing organization's funds contributed to other organizations for section 527 exempt function activities	▶ \$ _____
3	Total exempt function expenditures Add lines 1 and 2 Enter here and on Form 1120-POL, line 17b	▶ \$ _____
4	Did the filing organization file Form 1120-POL for this year?	<input type="checkbox"/> Yes <input type="checkbox"/> No
5	Enter the names, addresses and employer identification number (EIN) of all section 527 political organizations to which the filing organization made payments For each organization listed, enter the amount paid from the filing organization’s funds Also enter the amount of political contributions received that were promptly and directly delivered to a separate political organization, such as a separate segregated fund or a political action committee (PAC) If additional space is needed, provide information in Part IV	

(a) Name	(b) Address	(c) EIN	(d) Amount paid from filing organization's funds If none, enter -0-	(e) Amount of political contributions received and promptly and directly delivered to a separate political organization If none, enter -0-

Part II-A

Complete if the organization is exempt under section 501(c)(3) and filed Form 5768 (election under section 501(h)).

A

Check

☐

if the filing organization belongs to an affiliated group

B

Check

☐

if the filing organization checked box A and "limited control" provisions apply

Limits on Lobbying Expenditures (The term "expenditures" means amounts paid or incurred.)		(a) Filing Organization's Totals	(b) Affiliated Group Totals												
1a Total lobbying expenditures to influence public opinion (grass roots lobbying)															
b Total lobbying expenditures to influence a legislative body (direct lobbying)															
c Total lobbying expenditures (add lines 1a and 1b)															
d Other exempt purpose expenditures															
e Total exempt purpose expenditures (add lines 1c and 1d)															
f Lobbying nontaxable amount Enter the amount from the following table in both columns															
<table><tr><td>If the amount on line 1e, column (a) or (b) is:</td><td>The lobbying nontaxable amount is:</td></tr><tr><td>Not over \$500,000</td><td>20% of the amount on line 1e</td></tr><tr><td>Over \$500,000 but not over \$1,000,000</td><td>\$100,000 plus 15% of the excess over \$500,000</td></tr><tr><td>Over \$1,000,000 but not over \$1,500,000</td><td>\$175,000 plus 10% of the excess over \$1,000,000</td></tr><tr><td>Over \$1,500,000 but not over \$17,000,000</td><td>\$225,000 plus 5% of the excess over \$1,500,000</td></tr><tr><td>Over \$17,000,000</td><td>\$1,000,000</td></tr></table>		If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:	Not over \$500,000	20% of the amount on line 1e	Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000	Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000	Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000	Over \$17,000,000	\$1,000,000		
If the amount on line 1e, column (a) or (b) is:	The lobbying nontaxable amount is:														
Not over \$500,000	20% of the amount on line 1e														
Over \$500,000 but not over \$1,000,000	\$100,000 plus 15% of the excess over \$500,000														
Over \$1,000,000 but not over \$1,500,000	\$175,000 plus 10% of the excess over \$1,000,000														
Over \$1,500,000 but not over \$17,000,000	\$225,000 plus 5% of the excess over \$1,500,000														
Over \$17,000,000	\$1,000,000														
g Grassroots nontaxable amount (enter 25% of line 1f)															
h Subtract line 1g from line 1a If zero or less, enter -0-															
i Subtract line 1f from line 1c If zero or less, enter -0-															
j If there is an amount other than zero on either line 1h or line 1i, did the organization file Form 4720 reporting section 4911 tax for this year?		<input type="checkbox"/> Yes	<input type="checkbox"/> No												

4-Year Averaging Period Under Section 501(h)
(Some organizations that made a section 501(h) election do not have to complete all of the five columns below. See the instructions for lines 2a through 2f on page 4.)

Lobbying Expenditures During 4-Year Averaging Period					
Calendar year (or fiscal year beginning in)	(a) 2007	(b) 2008	(c) 2009	(d) 2010	(e) Total
2a Lobbying non-taxable amount					
b Lobbying ceiling amount (150% of line 2a, column(e))					
c Total lobbying expenditures					
d Grassroots non-taxable amount					
e Grassroots ceiling amount (150% of line 2d, column (e))					
f Grassroots lobbying expenditures					

Part II-B

Complete if the organization is exempt under section 501(c)(3) and has NOT filed Form 5768 (election under section 501(h)).

		(a)		(b)
		Yes	No	Amount
1	During the year, did the filing organization attempt to influence foreign, national, state or local legislation, including any attempt to influence public opinion on a legislative matter or referendum, through the use of			
	a Volunteers?		No	
	b Paid staff or management (include compensation in expenses reported on lines 1c through 1i)?		No	
	c Media advertisements?		No	
	d Mailings to members, legislators, or the public?		No	
	e Publications, or published or broadcast statements?		No	
	f Grants to other organizations for lobbying purposes?		No	
	g Direct contact with legislators, their staffs, government officials, or a legislative body?		No	
	h Rallies, demonstrations, seminars, conventions, speeches, lectures, or any similar means?		No	
	i Other activities? If "Yes," describe in Part IV	Yes		7,910
	j Total lines 1c through 1i			7,910
2a	Did the activities in line 1 cause the organization to be not described in section 501(c)(3)?		No	
b	If "Yes," enter the amount of any tax incurred under section 4912			
c	If "Yes," enter the amount of any tax incurred by organization managers under section 4912			
d	If the filing organization incurred a section 4912 tax, did it file Form 4720 for this year?		No	

Part III-A

Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6).

			Yes	No
1	Were substantially all (90% or more) dues received nondeductible by members?	1		
2	Did the organization make only in-house lobbying expenditures of \$2,000 or less?	2		
3	Did the organization agree to carryover lobbying and political expenditures from the prior year?	3		

Part III-B

Complete if the organization is exempt under section 501(c)(4), section 501(c)(5), or section 501(c)(6) if BOTH Part III-A, lines 1 and 2 are answered "No" OR if Part III-A, line 3 is answered "Yes".

1	Dues, assessments and similar amounts from members	1	
2	Section 162(e) non-deductible lobbying and political expenditures (do not include amounts of political expenses for which the section 527(f) tax was paid).		
a	Current year	2a	
b	Carryover from last year	2b	
c	Total	2c	
3	Aggregate amount reported in section 6033(e)(1)(A) notices of nondeductible section 162(e) dues	3	
4	If notices were sent and the amount on line 2c exceeds the amount on line 3, what portion of the excess does the organization agree to carryover to the reasonable estimate of nondeductible lobbying and political expenditure next year?	4	
5	Taxable amount of lobbying and political expenditures (see instructions)	5	

Part IV

Supplemental Information

Complete this part to provide the descriptions required for Part I-A, line 1, Part I-B, line 4, Part I-C, line 5, and Part II-B, line 1i. Also, complete this part for any additional information.

Identifier	Return Reference	Explanation
Part II-B, Line 1i	Part II-B, Line 1i - Other Activities Description	See next pageHospital paid dues to organizations, a portion of which is designated for lobbying expenses Dues %Lobbying \$LobbyingTHA dues \$19,436 24 00% \$4,665AHA dues 13,288 24 42% 3,245 Total \$32,724 \$7,910

SCHEDULE D
(Form 990)

Supplemental Financial Statements

▶ Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 8, 9, 10, 11, or 12.
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2010

Open to Public Inspection

Name of the organization Hill Country Memorial Hospital	Employer identification number 74-6083124
---	---

Part I

Organizations Maintaining Donor Advised Funds or Other Similar Funds or Accounts. Complete if the organization answered "Yes" to Form 990, Part IV, line 6.

	(a) Donor advised funds	(b) Funds and other accounts
1	Total number at end of year	
2	Aggregate contributions to (during year)	
3	Aggregate grants from (during year)	
4	Aggregate value at end of year	
5	Did the organization inform all donors and donor advisors in writing that the assets held in donor advised funds are the organization's property, subject to the organization's exclusive legal control? <div><input type="checkbox"/> Yes <input type="checkbox"/> No</div>	
6	Did the organization inform all grantees, donors, and donor advisors in writing that grant funds may be used only for charitable purposes and not for the benefit of the donor or donor advisor, or for any other purpose conferring impermissible private benefit <div><input type="checkbox"/> Yes <input type="checkbox"/> No</div>	

Part II

Conservation Easements. Complete if the organization answered "Yes" to Form 990, Part IV, line 7.

1	Purpose(s) of conservation easements held by the organization (check all that apply) <div><input type="checkbox"/> Preservation of land for public use (e g , recreation or pleasure) <input type="checkbox"/> Preservation of an historically importantly land area</div> <div><input type="checkbox"/> Protection of natural habitat <input type="checkbox"/> Preservation of a certified historic structure</div> <div><input type="checkbox"/> Preservation of open space</div>											
2	Complete lines 2a–2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year											
		<table><tr><td></td><td>Held at the End of the Year</td></tr><tr><td>a</td><td>Total number of conservation easements</td></tr><tr><td>b</td><td>Total acreage restricted by conservation easements</td></tr><tr><td>c</td><td>Number of conservation easements on a certified historic structure included in (a)</td></tr><tr><td>d</td><td>Number of conservation easements included in (c) acquired after 8/17/06</td></tr></table>		Held at the End of the Year	a	Total number of conservation easements	b	Total acreage restricted by conservation easements	c	Number of conservation easements on a certified historic structure included in (a)	d	Number of conservation easements included in (c) acquired after 8/17/06
	Held at the End of the Year											
a	Total number of conservation easements											
b	Total acreage restricted by conservation easements											
c	Number of conservation easements on a certified historic structure included in (a)											
d	Number of conservation easements included in (c) acquired after 8/17/06											
3	Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the taxable year ▶ _____											
4	Number of states where property subject to conservation easement is located ▶ _____											
5	Does the organization have a written policy regarding the periodic monitoring, inspection, handling of violations, and enforcement of the conservation easements it holds? <div><input type="checkbox"/> Yes <input type="checkbox"/> No</div>											
6	Staff and volunteer hours devoted to monitoring, inspecting and enforcing conservation easements during the year ▶ _____											
7	Amount of expenses incurred in monitoring, inspecting, and enforcing conservation easements during the year ▶ \$ _____											
8	Does each conservation easement reported on line 2(d) above satisfy the requirements of section 170(h)(4)(B)(i) and 170(h)(4)(B)(ii)? <div><input type="checkbox"/> Yes <input type="checkbox"/> No</div>											
9	In Part XIV, describe how the organization reports conservation easements in its revenue and expense statement, and balance sheet, and include, if applicable, the text of the footnote to the organization's financial statements that describes the organization's accounting for conservation easements											

Part III

Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets. Complete if the organization answered "Yes" to Form 990, Part IV, line 8.

1a	If the organization elected, as permitted under SFAS 116, not to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education or research in furtherance of public service, provide, in Part XIV, the text of the footnote to its financial statements that describes these items	
b	If the organization elected, as permitted under SFAS 116, to report in its revenue statement and balance sheet works of art, historical treasures, or other similar assets held for public exhibition, education, or research in furtherance of public service, provide the following amounts relating to these items	
	(i) Revenues included in Form 990, Part VIII, line 1	▶ \$ _____
	(ii) Assets included in Form 990, Part X	▶ \$ _____
2	If the organization received or held works of art, historical treasures, or other similar assets for financial gain, provide the following amounts required to be reported under SFAS 116 relating to these items	
a	Revenues included in Form 990, Part VIII, line 1	▶ \$ _____
b	Assets included in Form 990, Part X	▶ \$ _____

Part III

Organizations Maintaining Collections of Art, Historical Treasures, or Other Similar Assets (continued)

3

Using the organization's accession and other records, check any of the following that are a significant use of its collection items (check all that apply)

a

☐ Public exhibition

b

☐ Scholarly research

c

☐ Preservation for future generations

d

☐ Loan or exchange programs

e

☐ Other

4

Provide a description of the organization's collections and explain how they further the organization's exempt purpose in Part XIV

5

During the year, did the organization solicit or receive donations of art, historical treasures or other similar assets to be sold to raise funds rather than to be maintained as part of the organization's collection?

☐ Yes

☐ No

Part IV

Escrow and Custodial Arrangements. Complete if the organization answered "Yes" to Form 990, Part IV, line 9, or reported an amount on Form 990, Part X, line 21.

1a

Is the organization an agent, trustee, custodian or other intermediary for contributions or other assets not included on Form 990, Part X?

☐ Yes

☐ No

b

If "Yes," explain the arrangement in Part XIV and complete the following table

	Amount
1c	
1d	
1e	
1f	

2a

Did the organization include an amount on Form 990, Part X, line 21?

☐ Yes

☐ No

b

If "Yes," explain the arrangement in Part XIV

Part V

Endowment Funds. Complete if the organization answered "Yes" to Form 990, Part IV, line 10.

	(a)Current Year	(b)Prior Year	(c)Two Years Back	(d)Three Years Back	(e)Four Years Back
1a	Beginning of year balance				
b	Contributions				
c	Investment earnings or losses				
d	Grants or scholarships				
e	Other expenditures for facilities and programs				
f	Administrative expenses				
g	End of year balance				

2

Provide the estimated percentage of the year end balance held as

a

Board designated or quasi-endowment ▶

b

Permanent endowment ▶

c

Term endowment ▶

3a

Are there endowment funds not in the possession of the organization that are held and administered for the organization by

(i)

unrelated organizations

3a(i)

☐ Yes

☐ No

(ii)

related organizations

3a(ii)

☐

☐

b

If "Yes" to 3a(ii), are the related organizations listed as required on Schedule R?

3b

☐

☐

4

Describe in Part XIV the intended uses of the organization's endowment funds

Part VI

Investments—Land, Buildings, and Equipment. See Form 990, Part X, line 10.

Description of investment	(a) Cost or other basis (investment)	(b)Cost or other basis (other)	(c) Accumulated depreciation	(d) Book value
1a Land		4,867,819		4,867,819
b Buildings		38,225,214	17,200,925	21,024,289
c Leasehold improvements		1,221,201		1,221,201
d Equipment		33,177,572	22,222,786	10,954,786
e Other		643,991		643,991
Total. Add lines 1a-1e (Column (d) should equal Form 990, Part X, column (B), line 10(c).) ▶				38,712,086

Part XI Reconciliation of Change in Net Assets from Form 990 to Financial Statements		
1	Total revenue (Form 990, Part VIII, column (A), line 12)	159,617,426
2	Total expenses (Form 990, Part IX, column (A), line 25)	254,135,000
3	Excess or (deficit) for the year Subtract line 2 from line 1	35,482,426
4	Net unrealized gains (losses) on investments	4-39,672
5	Donated services and use of facilities	5
6	Investment expenses	6
7	Prior period adjustments	7
8	Other (Describe in Part XIV)	82,224,806
9	Total adjustments (net) Add lines 4 - 8	92,185,134
10	Excess or (deficit) for the year per financial statements Combine lines 3 and 9	107,667,560

Part XII Reconciliation of Revenue per Audited Financial Statements With Revenue per Return		
1	Total revenue, gains, and other support per audited financial statements	166,109,007
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12	
a	Net unrealized gains on investments2a-39,672	
b	Donated services and use of facilities2b	
c	Recoveries of prior year grants2c	
d	Other (Describe in Part XIV)2d	
e	Add lines 2a through 2d2e-39,672	366,148,679
3	Subtract line 2e from line 1	
4	Amounts included on Form 990, Part VIII, line 12, but not on line 1	
a	Investment expenses not included on Form 990, Part VIII, line 7b4a	
b	Other (Describe in Part XIV)4b-6,531,253	
c	Add lines 4a and 4b4c-6,531,253	559,617,426
5	Total Revenue Add lines 3 and 4c. (This should equal Form 990, Part I, line 12)	

Part XIII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return		
1	Total expenses and losses per audited financial statements	160,666,253
2	Amounts included on line 1 but not on Form 990, Part IX, line 25	
a	Donated services and use of facilities2a	
b	Prior year adjustments2b	
c	Other losses2c	
d	Other (Describe in Part XIV)2d6,531,253	
e	Add lines 2a through 2d2e6,531,253	354,135,000
3	Subtract line 2e from line 1	
4	Amounts included on Form 990, Part IX, line 25, but not on line 1:	
a	Investment expenses not included on Form 990, Part VIII, line 7b4a	
b	Other (Describe in Part XIV)4b	
c	Add lines 4a and 4b4c	554,135,000
5	Total expenses Add lines 3 and 4c. (This should equal Form 990, Part I, line 18)	

Part XIV Supplemental Information

Complete this part to provide the descriptions required for Part II, lines 3, 5, and 9, Part III, lines 1a and 4, Part IV, lines 1b and 2b, Part V, line 4, Part X, Part XI, line 8, Part XII, lines 2d and 4b, and Part XIII, lines 2d and 4b. Also complete this part to provide any additional information.

Identifier	Return Reference	Explanation
Part X	Part X FIN48 Footnote	Management has evaluated their income tax positions under the guidance included in ASC 740. Based on their review, management has not identified any material uncertain tax positions to be recorded or disclosed in the financial statements.
Part XIII, Line 2d	Part XIII, Line 2d Other expenses and losses per audited F/S	Rental Expenses \$115091 Inventory \$6453845 Auxiliary Inventory inc within Audit Rev \$-37683
Part XI, Line 8	Part XI, Line 8 Other Changes in Net Assets or Fund Balances	Transfer of Wellness Center Net Assets to Hospital \$1554758 Transfer of Comm Svce Ctr Net Assets to Hospital \$670048

SCHEDULE H
(Form 990)

Department of the Treasury
Internal Revenue Service

Hospitals

OMB No 1545-0047

2010

Open to Public
Inspection

▶ **Complete if the organization answered "Yes" to Form 990, Part IV, question 20.**
▶ **Attach to Form 990.** ▶ **See separate instructions.**

Name of the organization
Hill Country Memorial Hospital

Employer identification number
74-6083124

Part I

Financial Assistance and Certain Other Community Benefits at Cost

		Yes	No
1a	Did the organization have a financial assistance policy during the tax year? If "No," skip to question 6a	Yes	
b	If "Yes," is it a written policy?	Yes	
2	If the organization has multiple hospitals, indicate which of the following best describes application of the financial assistance policy to its various hospital facilities during the tax year <div><input type="checkbox"/> Applied uniformly to all hospitals</div> <div><input type="checkbox"/> Applied uniformly to most hospitals</div> <div><input type="checkbox"/> Generally tailored to individual hospitals</div>		
3	Answer the following based on the the financial assistance eligibility criteria that applied to the largest number of the organization's patients during the tax year a Does the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing <i>free</i> care to low income individuals? If "Yes," indicate which of the following is the FPG family income limit for eligibility for free care <div><input type="checkbox"/> 100%</div> <div><input type="checkbox"/> 150%</div> <div><input checked="" type="checkbox"/> 200%</div> <div><input type="checkbox"/> Other _____%</div>	Yes	
b	Does the organization use FPG to determine eligibility for providing <i>discounted</i> care to low income individuals? If "Yes," indicate which of the following is the family income limit for eligibility for discounted care <div><input type="checkbox"/> 200%</div> <div><input type="checkbox"/> 250%</div> <div><input checked="" type="checkbox"/> 300%</div> <div><input type="checkbox"/> 350%</div> <div><input type="checkbox"/> 400%</div> <div><input type="checkbox"/> Other _____%</div>	Yes	
c	If the organization does not use FPG to determine eligibility, describe in Part VI the income based criteria for determining eligibility for free or discounted care Include in the description whether the organization uses an asset test or other threshold, regardless of income, to determine eligibility for free or discounted care		
4	Did the organization's financial assistance policy that applied to the largest number of its patients during the tax year provide for free or discounted care to the "medically indigent"?	Yes	
5a	Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year?	Yes	
b	If "Yes," did the organization's financial assistance expenses exceed the budgeted amount?		No
c	If "Yes" to line 5b, as a result of budget considerations, was the organization unable to provide free or discounted care to a patient who was eligible for free or discounted care?		No
6a	Does the organization prepare a community benefit report during the tax year?	Yes	
6b	If "Yes," did the organization make it available to the public?	Yes	
	Complete the following table using the worksheets provided in the Schedule H instructions Do not submit these worksheets with the Schedule H		

7

Financial Assistance and Certain Other Community Benefits at Cost

Financial Assistance and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Financial Assistance at cost (from Worksheets 1 and 2)			3,034,694	1,969,371	1,065,323	1 970 %
b Unreimbursed Medicaid (from Worksheet 3, column a)			4,570,320	3,577,306	993,014	1 830 %
c Unreimbursed costs—other means-tested government programs (from Worksheet 3, column b)						
d Total Financial Assistance and Means-Tested Government Programs			7,605,014	5,546,677	2,058,337	3 800 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)			42,779		42,779	0 080 %
f Health professions education (from Worksheet 5)			38,408		38,408	0 070 %
g Subsidized health services (from Worksheet 6)						
h Research (from Worksheet 7)						
i Cash and in-kind contributions to community groups (from Worksheet 8)			7,000		7,000	0 010 %
j Total Other Benefits			88,187		88,187	0 160 %
k Total. Add lines 7d and 7j			7,693,201	5,546,677	2,146,524	3 960 %

Part II

Community Building Activities during the tax year, and describe in Part VI how its community building activities during the tax year, and describe in Part VI how its community building activities promoted the health of the communities it serves.

	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community building expense	(d) Direct offsetting revenue	(e) Net community building expense	(f) Percent of total expense
1	Physical improvements and housing					
2	Economic development					
3	Community support					
4	Environmental improvements					
5	Leadership development and training for community members					
6	Coalition building		18,267		18,267	0.030 %
7	Community health improvement advocacy					
8	Workforce development					
9	Other					
10	Total		18,267		18,267	0.030 %

Part III

Bad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

		Yes	No
1	Did the organization report bad debt expense in accordance with Healthcare Financial Management Association Statement No. 15?	1	No
2	Enter the amount of the organization's bad debt expense (at cost)	2	2,752,340
3	Enter the estimated amount of the organization's bad debt expense (at cost) attributable to patients eligible under the organization's financial assistance policy	3	
4	Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense. In addition, describe the costing methodology used in determining the amounts reported on lines 2 and 3, and rationale for including a portion of bad debt amounts as community benefit.		

Section B. Medicare

5	Enter total revenue received from Medicare (including DSH and IME)	5	24,559,427
6	Enter Medicare allowable costs of care relating to payments on line 5	6	34,834,220
7	Subtract line 6 from line 5. This is the surplus or (shortfall)	7	-10,274,793
8	Describe in Part VI the extent to which any shortfall reported in line 7 should be treated as community benefit. Also describe in Part VI the costing methodology or source used to determine the amount reported on line 6. Check the box that describes the method used: <input type="checkbox"/> Cost accounting system <input checked="" type="checkbox"/> Cost to charge ratio <input type="checkbox"/> Other		

Section C. Collection Practices

9a	Does the organization have a written debt collection policy?	9a	Yes
9b	If "Yes," does the organization's collection policy contain provisions on the collection practices to be followed for patients who are known to qualify for charity care or financial assistance? Describe in Part VI.	9b	No

Part IV

Management Companies and Joint Ventures

(a) Name of entity	(b) Description of primary activity of entity	(c) Organization's profit % or stock ownership %	(d) Officers, directors, trustees, or key employees' profit % or stock ownership%	(e) Physicians' profit % or stock ownership %
1				
2				
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				

Section A. Hospital Facilities

How many hospital facilities did the organization operate during the tax year? 1

Schedule H (Form 990) 2010

Section C. Other Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility

(list in order of size, measured by total revenue per facility, from largest to smallest)

How many non-hospital facilities did the organization operate during the tax year? _____

Name and address	Type of Facility (Describe)
1	
1	
2	
3	
4	
5	
6	
7	
8	
9	
10	

Part VI

Supplemental Information

Complete this part to provide the following information

- 1
- Required descriptions.** Provide the description required for Part I, lines 3c, 6a, and 7 , Part II, Part III, lines 4, 8, and 9b, and Part V, Section B, lines 1j, 3, 4, 5c, 6i, 7, 11h, 13g, 15e, 16e, 17e, 18d, 19d, 20, and 21
- 2
- Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any needs assessments reported in Part V, Section B
- 3
- Patient education of eligibility for assistance.** Describe how the organization informs and educates patients and persons who may be billed for patient care about their eligibility for assistance under federal, state, or local government programs or under the organization's financial assistance policy
- 4
- Community information.** Describe the community the organization serves, taking into account the geographic area and demographic constituents it serves
- 5
- Promotion of community health.** Provide any other information important to describing how the organization's hospital facilities or other health care facilities further its exempt purpose by promoting the health of the community (e g , open medical staff, community board, use of surplus funds, etc)
- 6
- Affiliated health care system.** If the organization is part of an affiliated health care system, describe the respective roles of the organization and its affiliates in promoting the health of the communities served
- 7
- State filing of community benefit report.** If applicable, identify all states with which the organization, or a related organization, files a community benefit report

Identifier	ReturnReference	Explanation
	Part V - Explanation of Number of Facility Type	The licensed hospital facility listed in Part V is the sole health care facility of the organization
	Part VI - States Where Community Benefit Report Filed	TX
	Part VI - Explanation Of How Organization Furthers Its Exempt Purpose	The organization furthers its exempt purpose through up to 40 public health events and screenings a year which are advertised and well attended The HCM Wellness Center offers remote immunization "drive-thrus" to increase immunization volumes Employees devote time and money to the Community Needs Council to furnish school supplies to eligible children, to the Area Food Bank for the hungry, and to the local Boys and Girls Club for community children activities The Auxiliary, hospital volunteer organization, raises funds to further employee health care education, which nurtures the available workforce The organization has the largest volunteer base in Fredericksburg Also, funds were donated to Relay for Life, Health Occupation Student Association (HOSA), and Eishbahn Employees also served in leadership roles for community organizations HCM also collaborates with city and county officials to prepare for emergency scenarios HCM invites city and county emergency officials to participate in mock emergency situations to prepare for an actual, likely emergency based on the geographical proximity of the hospital, such as a tornado or major chemical spill
	Part VI - Community Building Activities	HCM embarked on a project to build a health and wellness community center in 2009 and 2010 Collaborating with the City of Fredericksburg, physicians and the Fredericksburg Chamber of Commerce, HCM funded the creation of an architectural plan for the center
	Part VI - Community Information	The organization serves eight counties in the Hill Country Gillespie, Blanco, Burnet, Kendall, Kerr, McCollough, Mason and Llano The primary service area of Gillespie County (pop 24,837) accounts for about 50% of HCM patients The total service area population is 192,715, and the average patient age is 65 years old
	Part VI - Patient Education of Eligibility for Assistance	HCM patients speak with an HCM Business Office representative before care to determine if they are eligible for assistance under the federal, state and local government programs or the organization's charity care policy The patient's eligibility is assessed and carefully managed, so that if he/she overpays, he/she is reimbursed the reconciling amount
	Part VI - Needs Assessment	HCM assesses the needs of the community through patient surveys Patients receiving care in the following service lines are randomly surveyed by Press Ganey, an independent hospital auditing firm which audits 1800 hospitals in the United States In-patient care, Out-patient care, ER, and Home Health The following service lines are surveyed in an HCM paper-generated survey disseminated at the point of dismissal HCM Breast Center, HCM Community Clinic, and HCM Sleep Lab The HCM Community Clinic serves the indigent population and the surveys are a key contributor in determining if indigent community needs are being met
Number of Hospital Faciltiy - 0	Part V, Line 19d - Other Billing Determination of Individuals Without Insurance	All patients are billed the same original amount
Number of Hospital Faciltiy - 0	Part V, Line 17e - Other Actions Took Before Any Collection Actions	Patient account representatives contact patients by phone before initiating collection actions
Number of Hospital Faciltiy - 0	Part V, Line 13g - Other Means Hospital Facility Publicized the Policy	The financial assistance policy is also publicized through area physician practices
Number of Hospital Faciltiy - 0	Part V, Line 11h - Other Factors Used in Determing Amounts Charged Patients	The number of members of a household are also considered in calculating amounts charged to patients
	Part III, Line 9b - Provisions On Collection Practices For Qualified Patients	The collection policy currently does not contain explicit provisions on the collection practices to be followed for patients who are known to qualify for charity care or financial assistance
	Part III, Line 8 - Explanation Of Shortfall As Community Benefit	The source of the amount reported on line 6 is the 2010 Texas State Supplement to the AHA annual survey This amount is based upon the cost to charge ratio
	Part III, Line 4 - Bad Debt Expense	Excerpt from Audit Footnote # 3 Including bad debts and uncollected accounts, the total amount of uncompensated care was \$71,065,570 and \$67,406,454 in 2010 and 2009, respectively
	Part I, Line 3c - Charity Care Eligibility Criteria (FPG Is Not Used)	The Federal Poverty Guidelines are used on a sliding scale from 200% to 300% to determine eligblity for providing discounted care to low income individuals For example, for individuals with income over 200% of FPG but at or under 225%, 80% of the balance for health care services is adjusted

Schedule J
(Form 990)

Compensation Information

OMB No 1545-0047

2010

Open to Public Inspection

For certain Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

▶ Complete if the organization answered "Yes" to Form 990, Part IV, question 23.

▶ Attach to Form 990. ▶ See separate instructions.

Name of the organization
Hill Country Memorial Hospital

Employer identification number
74-6083124

Part I

Questions Regarding Compensation

	Yes	No
<div>1a</div> <div>Check the appropriate box(es) if the organization provided any of the following to or for a person listed in Form 990, Part VII, Section A, line 1a Complete Part III to provide any relevant information regarding these items</div> <div><div><div><input type="checkbox"/> First-class or charter travel</div><div><input type="checkbox"/> Travel for companions</div><div><input type="checkbox"/> Tax idemnification and gross-up payments</div><div><input type="checkbox"/> Discretionary spending account</div></div><div><div><input type="checkbox"/> Housing allowance or residence for personal use</div><div><input type="checkbox"/> Payments for business use of personal residence</div><div><input type="checkbox"/> Health or social club dues or initiation fees</div><div><input type="checkbox"/> Personal services (e g , maid, chauffeur, chef)</div></div></div>		
<div>1b</div> <div>If any of the boxes in line 1a are checked, did the organization follow a written policy regarding payment or reimbursement or provision of all the expenses described above? If "No," complete Part III to explain</div>		
<div>2</div> <div>Did the organization require substantiation prior to reimbursing or allowing expenses incurred by all officers, directors, trustees, and the CEO/Executive Director, regarding the items checked in line 1a?</div>		
<div>3</div> <div>Indicate which, if any, of the following the organization uses to establish the compensation of the organization's CEO/Executive Director Check all that apply</div> <div><div><div><input type="checkbox"/> Compensation committee</div><div><input type="checkbox"/> Independent compensation consultant</div><div><input type="checkbox"/> Form 990 of other organizations</div></div><div><div><input checked="" type="checkbox"/> Written employment contract</div><div><input checked="" type="checkbox"/> Compensation survey or study</div><div><input checked="" type="checkbox"/> Approval by the board or compensation committee</div></div></div>		
<div>4</div> <div>During the year, did any person listed in Form 990, Part VII, Section A, line 1a with respect to the filing organization or a related organization</div>		
<div>a</div> <div>Receive a severance payment or change-of-control payment from the organization or a related organization?</div>		No
<div>b</div> <div>Participate in, or receive payment from, a supplemental nonqualified retirement plan?</div>		No
<div>c</div> <div>Participate in, or receive payment from, an equity-based compensation arrangement?</div> <div>If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III</div>		No
<div>Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.</div>		
<div>5</div> <div>For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the revenues of</div>		
<div>a</div> <div>The organization?</div>		No
<div>b</div> <div>Any related organization?</div> <div>If "Yes," to line 5a or 5b, describe in Part III</div>		No
<div>6</div> <div>For persons listed in form 990, Part VII, Section A, line 1a, did the organization pay or accrue any compensation contingent on the net earnings of</div>		
<div>a</div> <div>The organization?</div>		No
<div>b</div> <div>Any related organization?</div> <div>If "Yes," to line 6a or 6b, describe in Part III</div>		No
<div>7</div> <div>For persons listed in Form 990, Part VII, Section A, line 1a, did the organization provide any non-fixed payments not described in lines 5 and 6? If "Yes," describe in Part III</div>		No
<div>8</div> <div>Were any amounts reported in Form 990, Part VII, paid or accrued pursuant to a contract that was subject to the initial contract exception described in Regs section 53 4958-4(a)(3)? If "Yes," describe in Part III</div>		No
<div>9</div> <div>If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)?</div>		No

Part II **Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees.** Use duplicate copies if additional space is needed.

For each individual whose compensation must be reported in Schedule J, report compensation from the organization on row (i) and from related organizations, described in the instructions on row (ii). Do not list any individuals that are not listed on Form 990, Part VII.

Note. The sum of columns (B)(i)-(iii) must equal the applicable column (D) or column (E) amounts on Form 990, Part VII, line 1a.

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) Retirement and other deferred compensation	(D) Nontaxable benefits	(E) Total of columns (B)(i)-(D)	(F) Compensation reported in prior Form 990 or Form 990-EZ
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
(1) Robert Smelser	(i) (ii)							
(2) Michael Williams	(i) (ii)	345,400				16,562	361,962	
(3) Mark Jones	(i) (ii)	152,152				5,869	158,021	
(4) LeAnn Myers	(i) (ii)	142,541			12,391	6,589	161,521	
(5) Debra Wallace	(i) (ii)	163,012			6,569	5,869	175,450	
(6)								
(7)								
(8)								
(9)								
(10)								
(11)								
(12)								
(13)								
(14)								
(15)								
(16)								

Part III **Supplemental Information**

Complete this part to provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 4c, 5a, 5b, 6a, 6b, 7, and 8. Also complete this part for any additional information.

Identifier	Return Reference	Explanation
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Schedule K
(Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Information on Tax Exempt Bonds

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 24a. Provide descriptions, explanations, and any additional information in Schedule O (Form 990).
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2010

Open to Public Inspection

Name of the organization
Hill Country Memorial Hospital

Employer identification number
74-6083124

Part I Bond Issues											
(a) Issuer Name	(b) Issuer EIN	(c) CUSIP #	(d) Date Issued	(e) Issue Price	(f) Description of Purpose	(g) Defeased		(h) On Behalf of Issuer		(i) Pool financing	
						Yes	No	Yes	No	Yes	No
A Fredericksburg Health Facilities Development Corporation	74-2944882	None00000	07-22-2005	7,000,000	Hospital Expansion		X		X		

Part II Proceeds									
		A		B		C		D	
1	Amount of bonds retired								
2	Amount of bonds legally defeased								
3	Total proceeds of issue	7,000,000							
4	Gross proceeds in reserve funds								
5	Capitalized interest from proceeds								
6	Proceeds in refunding escrow								
7	Issuance costs from proceeds	140,000							
8	Credit enhancement from proceeds								
9	Working capital expenditures from proceeds								
10	Capital expenditures from proceeds	6,860,000							
11	Other spent proceeds								
12	Other unspent proceeds								
13	Year of substantial completion	2006							
		Yes	No						
14	Were the bonds issued as part of a current refunding issue?		X						
15	Were the bonds issued as part of an advance refunding issue?		X						
16	Has the final allocation of proceeds been made?		X						
17	Does the organization maintain adequate books and records to support the final allocation of proceeds?	X							

Part III Private Business Use											
				A		B		C		D	
				Yes	No	Yes	No	Yes	No	Yes	No
1	Was the organization a partner in a partnership, or a member of an LLC, which owned property financed by tax-exempt bonds?				X						
2	Are there any lease arrangements that may result in private business use of bond-financed property?				X						

Part III

Private Business Use (Continued)

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
3a	Are there any management or service contracts that may result in private business use?		X						
b	Are there any research agreements that may result in private business use of bond-financed property?		X						
c	Does the organization routinely engage bond counsel or other outside counsel to review any management or service contracts or research agreements relating to the financed property?		X						
4	Enter the percentage of financed property used in a private business use by entities other than a section 501(c)(3) organization or a state or local government ▶								
5	Enter the percentage of financed property used in a private business use as a result of unrelated trade or business activity carried on by your organization, another section 501(c)(3) organization, or a state or local government ▶								
6	Total of lines 4 and 5								
7	Has the organization adopted management practices and procedures to ensure the post-issuance compliance of its tax-exempt bond liabilities?	X							

Part IV

Arbitrage

		A		B		C		D	
		Yes	No	Yes	No	Yes	No	Yes	No
1	Has a Form 8038-T, Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate, been filed with respect to the bond issue?		X						
2	Is the bond issue a variable rate issue?		X						
3a	Has the organization or the governmental issuer entered into a hedge with respect to the bond issue?		X						
b	Name of provider								
c	Term of hedge								
d	Was the hedge superintegrated?								
e	Was a hedge terminated?								
4a	Were gross proceeds invested in a GIC?		X						
b	Name of provider								
c	Term of GIC								
d	Was the regulatory safe harbor for establishing the fair market value of the GIC satisfied?		X						
5	Were any gross proceeds invested beyond an available temporary period?		X						
6	Did the bond issue qualify for an exception to rebate?		X						

Part V

Supplemental Information

Complete this part to provide additional information for responses to questions on Schedule K (see instructions)

Identifier	Return Reference	Explanation

SCHEDULE O

(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Supplemental Information to Form 990 or 990-EZ

Complete to provide information for responses to specific questions on
Form 990 or to provide any additional information.
▶ Attach to Form 990 or 990-EZ.

OMB No 1545-0047

2010

Open to Public
Inspection

Name of the organization Hill Country Memorial Hospital	Employer identification number 74-6083124
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Identifier	Return Reference	Explanation
Form 990, Part VI, Line 19	Form 990, Part VI, Line 19 Other Organization Documents Publicly Available	Organization governing documents, conflict of interest policies and financial statements are made available to the public upon request

Identifier	Return Reference	Explanation
Form 990, Part VI, Line 15b	Form 990, Part VI, Line 15b Compensation Review and Approval Process for Officers and Key Employees	The Executive Committee of the Board review s relevant wage survey and data to determne CEO compensation For other officers, the CEO review s wage data and surveys supplied by the Human Resource Director

Identifier	Return Reference	Explanation
Form 990, Part VI, Line 12c	Form 990, Part VI, Line 12c Explanation of Monitoring and Enforcement of Conflicts	Conflict of interest forms are completed by Board Members on an annual basis. All disclosures are reviewed by the Board Governance Committee and reported to the Hospital Board. Board members must recuse themselves from voting on issues related to their conflict.

Identifier	Return Reference	Explanation
Form 990, Part VI, Line 11	Form 990, Part VI, Line 11 Form 990 Review Process	The Hospital Board has given the Audit Committee the responsibility to review the Form 990 The CFO discusses each section with the committee and discusses any issues to be addressed for future years

Identifier	Return Reference	Explanation
Form 990, Part VI, Line 4	Form 990, Part VI, Line 4 Description of Significant Changes to Organizational Documents	The Bylaw s were amended and restated as of June 8, 2010 as a result of a reorganization of the entities w ithin the Hill Country Memorial Health System. Previously, the Health System served as the sole member of the Hospital and certain pow ers, including approval and removal of trustees and officers as w ell as approval of budgets, w ere reserved for the member. The Hospital now has no members and is governed by its Board of Trustees. The Board of Trustees now hold the pow ers that w ere previously reserved for the member.

Identifier	Return Reference	Explanation
Form 990, Part III, Line 4d	Form 990, Part III, Line 4d Other Program Services Description	OTHER PROGRAM SERVICES 4 Home Care Services - Provide nurses and therapists to assist patients in their homes with education, assessment and observation of wounds, respiratory status, cardiac status and other body systems Nurses also administer IVs, wound care, colostomy care, and catheter care OTHER PROGRAM SERVICES 5 WIC Program - Provide nutrition education, breast feeding support, WIC foods and social service referrals for women and children meeting WIC eligibility requirements, and community health programs such as immunizations for children

Identifier	Return Reference	Explanation
Form 990, Part III, Line 2	Form 990, Part III, Line 2 New Services	Effective April 1, 2010, the operations and net assets of related organizations Hill Country Wellness Center and Hill Country Community Services Corporation were transferred to Hill Country Memorial Hospital through a reorganization of the Hill Country Memorial Health System. The Hospital now conducts the programs formerly operated by these entities including home care services, the WIC program and health and wellness programs.

SCHEDULE R
(Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 33, 34, 35, 36, or 37.
▶ Attach to Form 990. ▶ See separate instructions.

OMB No 1545-0047

2010

Open to Public Inspection

Name of the organization
Hill Country Memorial Hospital

Employer identification number
74-6083124

Part I Identification of Disregarded Entities (Complete if the organization answered "Yes" on Form 990, Part IV, line 33.)

(a) Name, address, and EIN of disregarded entity	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Total income	(e) End-of-year assets	(f) Direct controlling entity

Part II Identification of Related Tax-Exempt Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related tax-exempt organizations during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501(c)(3))	(f) Direct controlling entity	(g) Section 512(b)(13) controlled organization	
						Yes	No
(1) Hill Country Primary Care Physicians 1020 Kerrville Hwy Fredericksburg, TX 78624 27-2860109	Physician Offices	TX	App Pending		N/A		No
(2) Hill Country Physician Associates 1020 Kerrville Hwy Fredericksburg, TX 78624 26-2553196	Physician Offices	TX	Applied		Hill Country Memorial Health System		No
(3) Hill Country Wellness Center 1020 Kerrville Hwy Fredericksburg, TX 78624 74-2858905	Health Education and Wellness	TX	501(c)(3)	11c	Hill Country Memorial Health System		No
(4) Hill Country Mem Medical Office Building 1020 Kerrville Hwy Fredericksburg, TX 78624 74-2858909	Facilities for Physicians/Medical Specialists	TX	501(c)(3)	11c	Hill Country Memorial Health System		No
(5) Hill Country Mem Community Svces Corp 1020 Kerrville Hwy Fredericksburg, TX 78624 74-2858907	Home Care Services	TX	501(c)(3)	11c	Hill Country Memorial Health System		No
(6) Hill Country Memorial Foundation Inc 1020 Kerrville Hwy Fredericksburg, TX 78624 74-2557105	Fundraising	TX	501(c)(3)	11c	N/A		No
(7) Hill Country Memorial Health System 1020 Kerrville Hwy Fredericksburg, TX 78624 74-2858904	Parent Company	TX	501(c)(3)	11a	N/A		No

Part III

Identification of Related Organizations Taxable as a Partnership (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a partnership during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Predominant income (related, unrelated, excluded from tax under sections 512- 514)	(f) Share of total income	(g) Share of end-of-year assets	(h) Disproporionate allocations?		(i) Code V—UBI amount in box 20 of Schedule K-1 (Form 1065)	(j) General or managing partner?		(k) Percentage ownership
							Yes	No		Yes	No	

Part IV

Identification of Related Organizations Taxable as a Corporation or Trust (Complete if the organization answered "Yes" on Form 990, Part IV, line 34 because it had one or more related organizations treated as a corporation or trust during the tax year.)

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Direct controlling entity	(e) Type of entity (C corp, S corp, or trust)	(f) Share of total income	(g) Share of end-of-year assets	(h) Percentage ownership

Part V

Transactions With Related Organizations (Complete if the organization answered "Yes" on Form 990, Part IV, line 34, 35, 35A, or 36.)

Note. Complete line 1 if any entity is listed in Parts II, III or IV

1 During the tax year, did the organization engage in any of the following transactions with one or more related organizations listed in Parts II-IV?

a Receipt of (i) interest (ii) annuities (iii) royalties (iv) rent from a controlled entity

b Gift, grant, or capital contribution to other organization(s)

c Gift, grant, or capital contribution from other organization(s)

d Loans or loan guarantees to or for other organization(s)

e Loans or loan guarantees by other organization(s)

f Sale of assets to other organization(s)

g Purchase of assets from other organization(s)

h Exchange of assets

i Lease of facilities, equipment, or other assets to other organization(s)

j Lease of facilities, equipment, or other assets from other organization(s)

k Performance of services or membership or fundraising solicitations for other organization(s)

l Performance of services or membership or fundraising solicitations by other organization(s)

m Sharing of facilities, equipment, mailing lists, or other assets

n Sharing of paid employees

o Reimbursement paid to other organization for expenses

p Reimbursement paid by other organization for expenses

q Other transfer of cash or property to other organization(s)

r Other transfer of cash or property from other organization(s)

1a

No

1b

No

1c

Yes

1d

No

1e

No

1f

No

1g

No

1h

No

1i

Yes

1j

No

1k

No

1l

Yes

1m

No

1n

Yes

1o

No

1p

Yes

1q

No

1r

Yes

2 If the answer to any of the above is "Yes," see the instructions for information on who must complete this line, including covered relationships and transaction thresholds

(a) Name of other organization	(b) Transaction type(a-r)	(c) Amount involved	(d) Method of determining amount involved
(1)			
(2)			
(3)			
(4)			
(5)			
(6)			

Schedule R (Form 990) 2010

Provide the following information for each entity taxed as a partnership through which the organization conducted more than five percent of its activities (measured by total assets or gross revenue) that was not a related organization. See instructions regarding exclusion for certain investment partnerships.

[illegible]

Part VII **Supplemental Information**

Complete this part to provide additional information for responses to questions on Schedule R (see instructions)

Identifier	Return Reference	Explanation
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Software ID: 10000105
Software Version: 2010v3.2
EIN: 74-6083124
Name: Hill Country Memorial Hospital

Form 990, Schedule R, Part II - Identification of Related Tax-Exempt Organizations

(a) Name, address, and EIN of related organization	(b) Primary activity	(c) Legal domicile (state or foreign country)	(d) Exempt Code section	(e) Public charity status (if section 501 (c)(3))	(f) Direct controlling entity	(g) Section 512 (b)(13) controlled organization	
						Yes	No
Hill Country Primary Care Physicians 1020 Kerrville Hwy Fredericksburg, TX78624 27-2860109	Physician Offices	TX	App Pending		N/A		No
Hill Country Physician Associates 1020 Kerrville Hwy Fredericksburg, TX78624 26-2553196	Physician Offices	TX	Applied		Hill Country Memorial Health System		No
Hill Country Wellness Center 1020 Kerrville Hwy Fredericksburg, TX78624 74-2858905	Health Education and Wellness	TX	501(c)(3)	11 c	Hill Country Memorial Health System		No
Hill Country Mem Medical Office Building 1020 Kerrville Hwy Fredericksburg, TX78624 74-2858909	Facilities for Physicians/Medical Specialists	TX	501(c)(3)	11 c	Hill Country Memorial Health System		No
Hill Country Mem Community Svces Corp 1020 Kerrville Hwy Fredericksburg, TX78624 74-2858907	Home Care Services	TX	501(c)(3)	11 c	Hill Country Memorial Health System		No
Hill Country Memorial Foundation Inc 1020 Kerrville Hwy Fredericksburg, TX78624 74-2557105	Fundraising	TX	501(c)(3)	11 c	N/A		No
Hill Country Memorial Health System 1020 Kerrville Hwy Fredericksburg, TX78624 74-2858904	Parent Company	TX	501(c)(3)	11 a	N/A		No

HILL COUNTRY MEMORIAL HOSPITAL
Fredericksburg, Texas

REPORT OF EXAMINATION

***For the Years Ended
December 31, 2010 and 2009***

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



HILL COUNTRY MEMORIAL HOSPITAL

CONSOLIDATED FINANCIAL STATEMENTS

YEARS ENDED DECEMBER 31, 2010 AND 2009

TABLE OF CONTENTS

	<u>Page Number</u>
Independent Auditor's Report	1 - 2
Consolidated Financial Statements	
Consolidated Balance Sheets	3
Consolidated Statements of Operations	4
Consolidated Statements of Changes in Net Assets	5
Consolidated Statements of Cash Flows	6 - 7
Notes to Consolidated Financial Statements	8 - 24
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting Based on an Audit of Consolidated Financial Statements Performed in Accordance with Government Auditing Standards	25 - 26
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133, and the Schedule of Federal Awards	27 - 28
Schedule of Findings and Questioned Costs – December 31, 2010	29 – 31
Schedule of Prior Year Findings and Questioned Costs – December 31, 2009	32 - 33
Schedule of Expenditures of Federal and State Awards	34 - 35

PARRISH • MOODY & FIKES, p.c.

CERTIFIED PUBLIC ACCOUNTANTS

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OFFICES IN
WACO & AUSTIN,
TEXAS

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Hill Country Memorial Hospital
Fredericksburg, Texas

We have audited the accompanying consolidated balance sheets of Hill Country Memorial Hospital (the "Hospital") as of December 31, 2010 and 2009, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Hill Country Memorial Hospital as of December 31, 2010 and 2009, and the results of operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 19, 2011, on our consideration of the Hospital's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits for were conducted for the purpose of forming an opinion on the consolidated financial statements of Hill Country Memorial Hospital taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U S Office of Management and Budget Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*," and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Parish, Moody & Likes, P.C.

Waco, Texas
April 19, 2011

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HILL COUNTRY MEMORIAL HOSPITAL

CONSOLIDATED BALANCE SHEETS

DECEMBER 31, 2010 AND 2009

Assets	2010	2009
Current assets		
Cash and cash equivalents	\$ 5,451,957	\$ 2,295,171
Internal reserve fund - short-term	2,921,290	3,246,189
Assets limited as to use - current	181,006	181,781
Patient accounts receivable, net	11,379,837	7,762,870
Estimated third-party payor settlements receivable	2,966,666	3,360,667
Other current assets	<u>3,090,918</u>	<u>3,317,489</u>
Total current assets	<u>25,991,674</u>	<u>20,164,167</u>
Internal reserve fund - long-term	4,775,866	4,874,796
Assets limited as to use - long-term	663,983	940,454
Long-term investments	11,563	11,563
Property and equipment, net	<u>38,944,817</u>	<u>39,064,689</u>
	<u>\$ 70,387,903</u>	<u>\$ 65,055,669</u>

Liabilities and Net Assets	2010	2009
Current liabilities		
Current portion of long-term debt	\$ 591,660	\$ 576,802
Accounts payable	2,892,897	1,890,734
Accrued expenses	<u>4,367,727</u>	<u>4,222,654</u>
Total current liabilities	<u>7,852,284</u>	<u>6,690,190</u>
Long-term debt, net of current portion	8,637,324	9,228,984
Refundable advance	<u>300,000</u>	<u>300,000</u>
Total liabilities	<u>16,789,608</u>	<u>16,219,174</u>
Commitments and contingencies		
Unrestricted net assets	<u>53,598,295</u>	<u>48,836,495</u>
	<u><u>\$ 70,387,903</u></u>	<u><u>\$ 65,055,669</u></u>

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

HILL COUNTRY MEMORIAL HOSPITAL
CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

	2010	2009
Unrestricted revenues, gains and other support		
Net patient service revenue	\$ 64,986,148	\$ 64,373,605
Other revenue	2,070,772	1,693,941
Contributions	-	21,477
Total revenues, gains and other support	<u>67,056,920</u>	<u>66,089,023</u>
Expenses		
Operating expenses	56,382,311	56,336,323
Depreciation and amortization	4,474,105	4,282,989
Interest	485,247	639,681
Provision for bad debts and uncollected accounts	2,760,627	2,813,108
Total expenses	<u>64,102,290</u>	<u>64,072,101</u>
Operating income (loss)	2,954,630	2,016,922
Other income		
Investment income	<u>132,740</u>	<u>220,708</u>
Excess (deficit) of revenues over expenses	3,087,370	2,237,630
Net unrealized gain (loss) on investments	(39,672)	(14,796)
Impairment loss on construction	-	(1,745,303)
Gain (loss) on discontinued operations	-	42,221
Net gain (loss) on disposal of assets	98,788	(55,295)
Net transfers (to) from affiliated organizations	<u>1,615,314</u>	<u>176,302</u>
Increase (decrease) in unrestricted net assets	<u><u>\$ 4,761,800</u></u>	<u><u>\$ 640,759</u></u>

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

HILL COUNTRY MEMORIAL HOSPITAL
CONSOLIDATED STATEMENTS OF CHANGES IN NET ASSETS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

	2010	2009
Unrestricted net assets:		
Excess (deficit) of revenues over expenses	\$ 3,087,370	\$ 2,237,630
Net unrealized gain (loss) on investments	(39,672)	(14,796)
Impairment loss on construction	-	(1,745,303)
Gain (loss) on discontinued operations	-	42,221
Net gain (loss) on disposal of assets	98,788	(55,295)
Net transfers (to) from affiliated organizations	1,615,314	176,302
	<hr/>	<hr/>
Increase (decrease) in unrestricted net assets	4,761,800	640,759
Net assets, beginning of year	<hr/> 48,836,495	<hr/> 48,195,736
Net assets, end of year	<hr/> <hr/> \$ 53,598,295	<hr/> <hr/> \$ 48,836,495

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

HILL COUNTRY MEMORIAL HOSPITAL
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

	2010	2009
Cash flows from operating activities		
Change in unrestricted net assets	\$ 4,761,800	\$ 640,759
Adjustment to reconcile change in net assets to cash provided by (used in) operating activities		
Depreciation and amortization	4,474,105	4,282,989
Net unrealized (gain) loss on investments	39,672	14,796
Impairment loss on construction	-	1,745,303
Net (gain) loss on disposal of assets	(98,788)	55,295
Changes in assets and liabilities		
(Increase) decrease in accounts receivable	(3,616,967)	(352,074)
(Increase) decrease in other assets	226,571	(503,312)
Increase (decrease) in accounts payable and accrued expenses	1,147,236	1,234,253
(Increase) decrease in third party pay or settlements	394,001	(1,181,025)
Other prepaids, deferrals, and accruals, net	-	(886)
Net cash provided by (used in) operating activities	<u>7,327,630</u>	<u>5,936,098</u>
Cash flows from investing activities		
Change in assets whose use is limited	701,075	(877,782)
Change in investments	(39,672)	(14,796)
Impairment loss on construction	-	(1,745,303)
Purchase of property and equipment	(4,354,233)	(1,251,273)
Gain (loss) on disposal of assets	<u>98,788</u>	<u>(55,295)</u>
Net cash provided by (used in) investing activities	<u>(3,594,042)</u>	<u>(3,944,449)</u>
Cash flows from financing activities		
Principal payments on long-term debt and notes payable	<u>(576,802)</u>	<u>(3,464,483)</u>
Net cash provided by (used in) financing activities	<u>(576,802)</u>	<u>(3,464,483)</u>
Net increase (decrease) in cash and cash equivalents	3,156,786	(1,472,834)
Cash balance, beginning of year	<u>2,295,171</u>	<u>3,768,005</u>
Cash balance, end of year	<u><u>\$ 5,451,957</u></u>	<u><u>\$ 2,295,171</u></u>

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

HILL COUNTRY MEMORIAL HOSPITAL
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Continued)
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

	2010	2009
Supplemental disclosures of cash flow information		
Cash payments for		
Interest (net of interest capitalized)	\$ 486,505	\$ 643,484

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

HILL COUNTRY MEMORIAL HOSPITAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

1. DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

In 1971, for the purpose of operating a general acute care hospital in Fredericksburg, Texas, Hill Country Memorial Hospital, a not-for-profit corporation was organized. In 1998, Hill Country Memorial Hospital System was formed operating a number of distinct corporations described below:

Hill Country Memorial Hospital
Hill Country Memorial Medical Office Buildings
Hill Country Memorial Community Services Corporation
Hill Country Memorial Wellness Center

In 2008, the System formed the Hill Country Physician Associates (the "*Associates*") The Associates is a Texas nonprofit corporation and a 501(a) nonprofit health organization certified by the Texas State Board of Medical Examiners. The Associates was formed to encourage quality healthcare providers to locate in the area to provide health care services to patients. The sole member of the Associates is the System.

In 2009, the System sold the Medical Office Building. See Note 15 for further discussion.

The System reorganized all entities discussed above into three legal entities, the Hospital, consisting of all the above entities, the Physician Associates, and the Primary Care Physicians with an effective date of April 1, 2010.

In June of 2010, the Hospital formed the Hill Country Primary Care Physicians (the "*PCP*") The PCP is a Texas nonprofit corporation and a 501(a) nonprofit health organization certified by the Texas State Board of Medical Examiners. The PCP was formed to encourage quality healthcare providers to locate in the area to provide health care services to patients. The sole member of the PCP is the Hospital.

The organizations are all ultimately controlled by the Board of Trustees of the Hospital who are elected by remaining board members to serve three year terms. The consolidated financial statements for 2010 and 2009 include the consolidated financial statements of the above organizations, as well as the Hill Country Memorial Hospital Auxiliary. All intercompany transactions have been eliminated.

HILL COUNTRY MEMORIAL HOSPITAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

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

Use of Estimates

The preparation of consolidated 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 consolidated 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 and Internal Reserve Fund

Assets limited as to use (if any) and the Internal reserve fund primarily includes assets held by trustees under indenture agreements and designated assets set aside by the Board of Trustees for professional liability and 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 consolidated balance sheets at December 31, 2010 and 2009.

Property and Equipment

Property and equipment acquisitions 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 consolidated 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.

HILL COUNTRY MEMORIAL HOSPITAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

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

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets (if any) are comprised of assets whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets (if any) have been restricted by donors to be maintained by the Hospital in perpetuity.

Unconditional promises to give cash and other assets to the Hospital (if any) are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give (if any) are reported at fair value at the date the gift is received. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions in the accompanying consolidated financial statements.

Excess of Revenues over Expenses

The statement of operations includes excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, may include unrealized gains and losses on investments other than trading securities, permanent transfers of assets to and from affiliates for other than goods and services, and contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purposes of acquiring such assets).

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.

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.

HILL COUNTRY MEMORIAL HOSPITAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

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

Income Taxes

The Hospital is a not-for-profit corporation, and has been recognized as tax-exempt pursuant to Section 501(c)(3) of the Internal Revenue Code except for the Associates and PCP which are recognized under 501(a), and are required to file a Form 990

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 disaster, and employee health, dental, and accidental benefits. The Hospital is partially self-insured for employee health insurance, general and professional liability insurance, and fully self-insured for workers' compensation insurance, as discussed in Note 8. Commercial insurance coverage is purchased to cover the various other claims arising from such matters.

Investments

Investments in debt securities (if any) are measured at fair value in the consolidated balance sheets. Investment income or loss (including realized gains and losses on investments, interest and dividends) is included in the excess of revenues over expenses unless the income or loss is restricted by donor or law. Unrealized gains and losses on investments are excluded from the excess of revenues over expenses unless the investments are trading securities.

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.

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.

Self-Funded Malpractice Accruals

The Hospital relies on its legal counsel and insurance consultants to assist in categorizing possible malpractice claims. Its policy is to accrue amounts (if any) that are estimated to be in excess of applicable insurance limits and that are categorized as probable in occurrence. Additionally, the loss (if any) must be subject to reasonable estimation. The Hospital may disclose certain activity that it deems to be possibly material even though it does not meet criteria for accrual.

Additionally, the Hospital maintains an accrual for estimated losses that may be incurred by the Hospital. This estimate is based on hospital experience as well as actuarial data.

HILL COUNTRY MEMORIAL HOSPITAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

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

Repurchase Agreements

The Hospital has entered into a repurchase agreement with a local bank. This type of agreement is a form of short-term borrowing.

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 consolidated financial statements, the Hospital has evaluated events and transactions for potential recognition or disclosure through April 19, 2011, the date of the consolidated 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 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, 2010 and 2009, respectively, were \$2,966,666 and \$3,360,667. 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	\$ 689,887	\$ 823,812
Current cost report receivable from (payable to) Medicaid	1,376,779	1,608,889
Prior year cost report (payable to) receivable from Medicare	-	27,966
Volume adjustment	<u>900,000</u>	<u>900,000</u>
Net third-party settlements	<u>\$ 2,966,666</u>	<u>\$ 3,360,667</u>

HILL COUNTRY MEMORIAL HOSPITAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

2. NET PATIENT SERVICE REVENUE *(Continued)*

The Hospital has 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.

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, the potential exists for future claims. These will be recognized in the year the amounts are determined, if any.

3. 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, 2010 and 2009.

	<u>2010</u>	<u>2009</u>
Gross patient service revenue	\$ 133,291,091	\$ 128,966,951
Medicare and Medicaid contractual adjustments	(52,445,589)	(50,785,584)
Other third-party payors	(9,399,810)	(8,039,756)
Charity care	<u>(6,459,544)</u>	<u>(5,768,006)</u>
	<u>\$ 64,986,148</u>	<u>\$ 64,373,605</u>

Including bad debts and uncollected accounts, the total amount of uncompensated care was \$71,065,570 and \$67,406,454 in 2010 and 2009, respectively.

The Hospital is subject to the Texas Charity Care Act (the "Act") which requires it to provide certain levels of charity care to qualifying patients. It is possible to satisfy the requirements of the Act by providing various levels of charity care depending on the particular situation of the Hospital. The Act also contains a number of exceptions and makeup provisions. Management is of the opinion that it is in material compliance with the terms of the Act.

HILL COUNTRY MEMORIAL HOSPITAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

4. LIMITED USE ASSETS, INTERNAL RESERVE FUND, AND INVESTMENTS

The components of assets limited as to use, internal reserve fund, and investments at December 31, 2010 and 2009, are set forth in the following table. Investments are stated at fair value and are comprised primarily of cash and U S Treasury obligations.

	<u>2010</u>	<u>2009</u>
Internal reserve fund		
For operations and capital expenditures		
Cash and cash equivalents	\$ 2,921,290	\$ 1,815,618
Certificates of deposit - long-term	-	90,751
US Treasury obligations - short-term	-	1,430,571
US Treasury obligations - long-term	4,275,866	2,969,456
Repurchase agreements - long-term	500,000	1,814,589
	<u>\$ 7,697,156</u>	<u>\$ 8,120,985</u>
Internally designated trusts for professional liability		
Cash and cash equivalents	\$ 543,161	\$ 269,086
US Treasury obligations - long-term	250,000	801,284
	<u>793,161</u>	<u>1,070,370</u>
Internally designated for social service		
Cash and cash equivalents	<u>4,490</u>	<u>4,374</u>
Designated for use by TPA for employee health claims		
Cash and cash equivalents	<u>47,338</u>	<u>47,491</u>
 Total assets limited as to use	 844,989	 1,122,235
 Less assets limited as to use - current	 <u>(181,006)</u>	 <u>(181,781)</u>
 Assets limited as to use - long-term	 <u>\$ 663,983</u>	 <u>\$ 940,454</u>
 Long-term investments		
Investment in Greater Hill Country Hospice	<u>\$ 11,563</u>	<u>\$ 11,563</u>

HILL COUNTRY MEMORIAL HOSPITAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

5. CONCENTRATIONS OF CREDIT RISK

Accounts Receivable - The Hospital is located in Fredericksburg, 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>2010</u>	<u>2009</u>
Medicare	53%	49%
Medicaid	4%	6%
Other third-party payors	38%	32%
Private pay	<u>5%</u>	<u>13%</u>
	<u>100%</u>	<u>100%</u>

	<u>2010</u>	<u>2009</u>
Accounts receivable - GROSS	\$26,781,080	\$18,354,375
Allowance for bad debts, uncollected accounts and contractual adjustments	<u>(15,401,243)</u>	<u>(10,591,505)</u>
Accounts receivable - NET	<u>\$11,379,837</u>	<u>\$ 7,762,870</u>

Bank Accounts - Insurance and collateralization are shown as follows:

	<u>2010</u>	<u>2009</u>
Insured (FDIC)	\$ 699,904	\$ 877,452
Collateralized by pledged securities	5,352,804	3,025,356
Uncollateralized	<u>83,210</u>	<u>33,085</u>
Total	<u>\$ 6,135,918</u>	<u>\$ 3,935,893</u>

Investments - The Hospital routinely invests its surplus operating funds in money market mutual funds and government securities. At December 31, 2010 and 2009, the Hospital had \$4,525,866 and \$5,201,311, respectively, in these funds, which generally invest in highly liquid U.S. government and agency obligations. Investments in money market funds and government securities are not insured or guaranteed by the U.S. government; however, management believes the credit risk related to these investments is minimal. The Hospital has entered into a repurchase agreement with a local bank for \$500,000.

Suppliers - The Hospital is dependent on a third-party provider of emergency care services. If the Hospital were unable to maintain its current arrangements or locate alternative suppliers, this could result in a future disruption of service to patients.

HILL COUNTRY MEMORIAL HOSPITAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

5. CONCENTRATIONS OF CREDIT RISK *(Continued)*

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 the Hospital's operations.

6. PROPERTY AND EQUIPMENT

A summary of property and equipment at December 31, 2010 and 2009, follows:

	<u>2010</u>	<u>2009</u>	<u>Depreciable Lives</u>
Land and improvements	\$ 6,089,020	\$ 5,681,872	20 years
Buildings	38,293,394	36,070,755	15-40 years
Equipment	33,419,095	31,028,216	3-20 years
Construction in progress	<u>643,991</u>	<u>2,884,826</u>	
	78,445,500	75,665,669	
Less accumulated depreciation and amortization	<u>(39,500,683)</u>	<u>(36,600,980)</u>	
	<u>\$ 38,944,817</u>	<u>\$ 39,064,689</u>	

In 2007, the Hospital began planning for a hospital expansion and renovation project. The total estimated cost of this project is approximately \$24,500,000. Amounts in construction in progress for 2010 and 2009, include amounts related to the hospital expansion and renovation project. Included in the initial planning phase of the hospital expansion and renovation was a Tower project which was abandoned in 2009. This resulted in an impairment loss on construction of \$1,745,303. The cath lab project, including equipment, was completed March 2010 at a cost of approximately \$3,500,000. The remaining \$643,991 of construction in progress consists of various projects for hospital improvements.

HILL COUNTRY MEMORIAL HOSPITAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

7. LONG-TERM DEBT

A summary of long-term debt at December 31, 2010 and 2009, follows

	<u>2010</u>	<u>2009</u>
Fredericksburg Health Facilities Development Corporation note payable, 4.875%, assigned to a bank, payable in monthly installments ranging from approximately \$39,000 to \$45,000, with final payment due December 15, 2019, secured by real property and improvements	\$ 3,560,000	\$ 3,860,000
Fredericksburg Health Facilities Development Corporation note payable, 5.240%, assigned to a bank, payable in monthly installments of \$44,481, with final payment due September 1, 2024, secured by real property and improvements	<u>5,668,984</u>	<u>5,945,786</u>
	9,228,984	9,805,786
Less current portion	<u>(591,660)</u>	<u>(576,802)</u>
	<u>\$ 8,637,324</u>	<u>\$ 9,228,984</u>

HILL COUNTRY MEMORIAL HOSPITAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

7. LONG-TERM DEBT *(Continued)*

Indentures – Under the indentures associated with the loans from the Fredericksburg Health Facilities Development Corporation, the Hospital is required to maintain certain deposits with a trustee. The indenture agreements also place limits on the incurrence of additional borrowings and require that the Hospital maintain adequate insurance coverage for property losses as long as the debt is outstanding. The indenture agreements require the Hospital to take the necessary steps to ensure its tax-exempt status, have an annual audit of the consolidated financial statements, maintain certain levels of operating performance, and place limits on the disposition of assets. The certain levels of operating performance are defined as: a) maintain a minimum consolidated current ratio of not less than 1.75:1.00, which is currently 3.31; b) maintain a minimum consolidated financial leverage ratio of not more than 1.0:1.0, which is currently 0.34; and c) maintain a minimum consolidated debt coverage ratio of not less than 1.5:1.0, which is currently 9.03.

Long-term debt after December 31, 2010, follows:

<u>Year(s) Ending December 31,</u>	<u>Long-Term Debt</u>
2011	\$ 591,660
2012	649,316
2013	683,811
2014	701,193
2015	759,507
Remaining	<u>5,843,497</u>
	<u>\$ 9,228,984</u>

8. COMMITMENTS AND CONTINGENCIES

Operating Leases - The Hospital leases various equipment and facilities under operating leases expiring at various dates. Total rental expense in 2010 and 2009 for all operating leases was \$524,459 and \$451,165, respectively.

Litigation - The Hospital from time to time is subject to claims and suits for damages, including damages for personal injuries, by patients and others, most of which are covered by insurance as to risk and amount. In the opinion of management, the ultimate resolution of any pending legal proceedings will not have a material effect on the Hospital's financial position or results of operations.

HILL COUNTRY MEMORIAL HOSPITAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

8. COMMITMENTS AND CONTINGENCIES *(Continued)*

Insurance Arrangements - The Hospital maintains a self-insurance program to provide health care benefits for eligible employees. The Hospital also maintains a reinsurance arrangement with a third-party insurer for excess losses. The Hospital assumes the first \$200,000 of claims liability per individual plan participant and is subject to an aggregate stop loss limit of \$5,269,612. After either of these limits are reached by the Hospital, the reinsurer will pay claims for plan participants. Each plan participant has unlimited coverage by the reinsurer over the lifetime of his/her participation. The Hospital may be contingently liable should the reinsurer be unable to perform under its contractual agreement. Expenses, net of stop-losses, included in income from operations for the health plan during 2010 and 2009 were \$2,647,451 and \$4,241,181, respectively. Additionally, an estimated liability of \$570,249 and \$500,912 has been recorded for claims that are unpaid at December 31, 2010 and 2009, respectively, as well as for those that are incurred but not reported.

	Liability at Beginning of Year	Claims Payments	Current Year Claims and Changes in Estimates	Liability at End of Year
2009-2010	\$ 500,912	\$ (2,578,114)	\$ 2,647,451	\$ 570,249
2008-2009	\$ 431,470	\$ (4,171,739)	\$ 4,241,181	\$ 500,912

Additionally, the Hospital is partially self-insured for general and professional liability. The Hospital purchased an umbrella insurance policy which limits its liability to \$1 million per occurrence and \$3 million in aggregate. In order to cover the liability, the Hospital has set aside funds in the amount of \$793,161 and \$1,070,370 as of December 31, 2010 and 2009, respectively. Expense, including changes in estimates, included in income from operations during 2010 and 2009 was \$282,041 and \$313,098, respectively. An estimated liability of \$793,510 has been recorded for claims that are unpaid at December 31, 2010 and 2009. Management believes there are no outstanding reported claims as of December 31, 2010.

	Liability at Beginning of Year	Claims Payments	Current Year Claims and Changes in Estimates	Liability at End of Year
2009-2010	\$ 793,510	\$ (282,041)	\$ 282,041	\$ 793,510
2008-2009	\$ 793,510	\$ (313,098)	\$ 313,098	\$ 793,510

HILL COUNTRY MEMORIAL HOSPITAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

8. COMMITMENTS AND CONTINGENCIES *(Continued)*

The Hospital is a non-subscriber for workers' compensation insurance. No associated risks have been transferred through the use of supplemental insurance policies; however, the Hospital has set up a reserve of approximately \$16,000 for anticipated future claims. Workers' compensation expense was \$13,786 and \$17,404 in 2010 and 2009, respectively.

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 at Note 13. 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.

9. EMPLOYEE BENEFITS

Compensated Absences - As of December 31, 2010 and 2009, the Hospital has accrued compensated absence liability of \$1,592,319 and \$1,608,766, respectively. The Hospital may pay accrued compensated absences upon termination if proper notice and termination procedures are followed.

Pension Plan - The Hospital sponsors a defined contribution pension plan which covers substantially all of its employees. Participants may contribute up to 16% of their salary with the Hospital matching the first 4%. Pension expense charged to operations was \$585,602 and \$585,223 in 2010 and 2009, respectively. Participants are fully vested after 6 years of service. During the current year the client has begun automatic enrollment into the plan upon meeting eligibility requirements.

10. FUNCTIONAL EXPENSES

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

	<u>2010</u>	<u>2009</u>
Health care services	\$55,482,525	\$57,299,432
General and administrative	<u>8,619,765</u>	<u>6,772,669</u>
	<u>\$64,102,290</u>	<u>\$64,072,101</u>

HILL COUNTRY MEMORIAL HOSPITAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

11. FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial Accounting Standards Board has established 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 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.

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, 2010.

Cash and cash equivalents: The carrying amounts reported in the consolidated balance sheets for cash and cash equivalents approximate their fair value.

Assets limited as to use: These assets consist primarily of cash and short-term and long-term investments. The carrying amounts reported in the consolidated balance sheets approximate their fair value.

Internal reserve fund: These assets consist primarily of cash and short-term and long-term investments. The carrying amounts reported in the consolidated balance sheets approximate their fair value.

Investments: The carrying amount reported is the amount of equity invested in Greater Hill Country Hospice.

Patient accounts receivable, net: The carrying amounts reported in the consolidated balance sheets for accounts receivable approximate their fair value, based on observable collection histories.

HILL COUNTRY MEMORIAL HOSPITAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

11. FAIR VALUE OF FINANCIAL INSTRUMENTS *(Continued)*

Other current assets: The carrying amounts reported in the consolidated balance sheets for other current assets approximates its fair value

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

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

Long-term debt: The fair value of the Hospital's remaining long-term debt is estimated using net present value, based on the Hospital's current incremental borrowing rates for similar types of borrowing arrangements

The carrying amounts and fair values of the Hospital's financial instruments at December 31, 2010 are as follows

	Carrying Amount	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3
Cash and cash equivalents	\$ 5,451,957	\$ 5,451,957	\$ -	\$ -
Assets limited as to use	844,989	844,989	-	-
Internal reserve fund	7,697,156	7,697,156	-	-
Investments	11,563	11,563	-	-
Patient accounts receivable, net	11,379,837	-	11,379,837	-
Other current assets	3,090,918	3,090,918	-	-
Accounts payable and accrued expenses	7,260,624	-	7,260,624	-
Estimated third-party payor settlements, net	2,966,666	2,966,666	-	-
Long-term debt	9,228,984	-	9,110,407	-

12. AFFILIATED ORGANIZATIONS TRANSACTIONS

Hill Country Memorial Hospital Foundation - Because of the existence of common directors and other factors, Hill Country Memorial Hospital and Hill Country Memorial Hospital Foundation (the "Foundation") are considered to be affiliated organizations. The Foundation was established in 1990 for the purpose of improving Hospital services provided to the community through the modernization and expansion of the facilities, equipment, and medical services. The Foundation is authorized by the Hospital to solicit contributions on its behalf. In the absence of donor restrictions, the Foundation has discretionary control over the amounts, timing, and use of its distributions. Transfers from the Foundation were \$1,636,064 and \$6,099 during 2010 and 2009, respectively. Other transfers in 2010 and 2009 were used to fund various projects.

HILL COUNTRY MEMORIAL HOSPITAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

12. AFFILIATED ORGANIZATIONS TRANSACTIONS *(Continued)*

In a previous year, the Hill Country Memorial Community Services Corporation (the "CSC") took over operations of the Thrift Shop from the Foundation. As consideration of the transfer of ownership, CSC agreed to pay the Foundation \$6,000 a month. As of April 1, 2010, payments to the Foundation ceased.

Hill Country Regional Health Network - The Hospital participates in the Hill Country Regional Health Network (the "HCRHN"), a Physician Hospital Organization organized in 1997 under the Texas Non-Profit Corporation Act. The Hospital and the physicians each elect 50% of the Board of Directors. Additionally, the Hospital and the physicians each fund 50% of the operating costs of the HCRHN. The Hospital has contributed \$56,962 and \$54,167 to the HCRHN during 2010 and 2009, respectively, and has recorded these amounts in operating expenses.

Greater Hill Country Hospice - On April 1, 1999, Greater Hill Country Hospice began operations, organized under Section 501(c)(3) of the Internal Revenue Code of 1986, to serve the needs of terminally ill patients in the Greater Hill Country area. This is a joint venture agreement between the hospitals of the Greater Hill Country Health Alliance. In 2008, one of the hospitals in this Alliance chose to no longer be a member. The Hospital is reimbursed for all related expenses. As of January 1, 2011, another hospital in this Alliance chose to no longer be a member, thus making the Hospital the sole member.

13. GUARANTEE

The Hospital has entered into either loan or guaranteed income agreements with five physicians in return for their practice in the surrounding area. The guarantee agreements require the Hospital to make advances in months the physicians' net practice income falls below certain amounts. The physicians must repay these advances in months when net practice income is above the minimum. The physicians must continue their practice in the surrounding area for the months specified in their contracts. If a physician ceases practicing before the loan amount or advancement amount has been repaid or forgiven, the amount outstanding shall be repaid to the Hospital. The Hospital has loaned or advanced a total of \$1,121,633 and \$764,826 under these agreements with \$921,778 and \$647,736 remaining unamortized as of December 31, 2010 and 2009, respectively.

14. REFUNDABLE ADVANCE

In 2007, the Hospital received a contribution from the Don L. and Julie Holden Foundation granting a property to be used for hospital services and related activities. The contribution is subject to a 30 year contingent obligation for the use of the property for hospital services and related activities. In the event the Hospital ceases to use the property for the above purposes, the Hospital is required to pay the fair value of the property as of the time of receipt. At the time of receipt, the fair value was \$300,000. This amount is considered a refundable advance and will be recognized as contribution revenue upon fulfillment of the above obligation.

HILL COUNTRY MEMORIAL HOSPITAL
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEARS ENDED
DECEMBER 31, 2010 AND 2009

15. DISCONTINUED OPERATIONS

On November 16, 2009, the Hospital sold the operations and the majority of the assets used for the operation of the medical office building for \$3,925,000. Total revenues of the medical office building as of December 31, 2009 were \$841,543. The revenues consist mainly of rental income. The gain on the sale of the medical office building was \$190,885. The total expenses for the medical office building as of December 31, 2009 were \$772,153. The expenses consist mainly of salaries, benefits, supplies, and interest.

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
BASED ON AN AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Board of Trustees
Hill Country Memorial Hospital
Fredericksburg, Texas

We have audited the consolidated financial statements of Hill Country Memorial Hospital (the "*Hospital*") as of and for the year ended December 31, 2010, and have issued our report thereon dated April 19, 2010. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Hospital's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A material weakness is a significant deficiency, or combination of significant deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the Hospital's consolidated financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs that we considered to be significant deficiencies as noted in finding 2010-1, and continued reporting of prior year findings at 2009-1 and 2009-2. A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Hospital's consolidated financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We noted certain additional matters that we reported to management of Hill Country Memorial Hospital in a separate letter dated April 19, 2011.

The Hospital's response to the findings identified in our audit is described above. We did not audit the Hospital's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board of Trustees, management, federal and state awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Parish, Moody & Liles, P.C.

Waco, Texas
April 19, 2011

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND
ON INTERNAL CONTROL OVER COMPLIANCE
IN ACCORDANCE WITH OMB CIRCULAR A-133, AND
THE SCHEDULE OF FEDERAL AWARDS**

To the Board of Trustees
Hill Country Memorial Hospital
Fredericksburg, Texas

COMPLIANCE

We have audited the compliance of Hill Country Memorial Hospital (the "*Hospital*") with the types of compliance requirements described in the *US Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended December 31, 2010. The Hospital's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the Hospital's management. Our responsibility is to express an opinion on the Hospital's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Hospital's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the Hospital's compliance with those requirements.

In our opinion, Hill Country Memorial Hospital complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended December 31, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2010-1 on page 31.

INTERNAL CONTROL OVER COMPLIANCE

The management of Hill Country Memorial Hospital is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the Hospital's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hospital's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. However, as discussed below, we identified certain deficiencies in internal control over compliance that we considered to be significant deficiencies as noted in finding 2010-1 on page 30.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

The Hospital's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the Hospital's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Parrish, Moody & Liles, P.C.

Waco, Texas
April 19, 2011

HILL COUNTRY MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010

SECTION I – SUMMARY OF AUDITOR’S RESULTS

Financial Statements

Type of auditor’s report issued	Unqualified
Internal control over financial reporting	
Material weakness (es) identified?	No
Significant deficiency (ies) identified that are not considered to be material weakness (es)?	Yes
Noncompliance material to the financial statements noted?	No

Federal Awards

Internal control over major programs	
Material weakness (es) identified?	No
Significant deficiency (ies) identified that are not considered to be material weakness (es)?	Yes
Type of auditor’s report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Identification of major programs

<u>CFDA/Grant Number</u>	<u>Name of Federal Program or Cluster</u>
10.557	Special Supplemental Nutrition Program for Women, Infants, and Children
Dollar threshold used to distinguish between type A and type B programs	\$300,000
Auditee qualified as low-risk auditee?	No

HILL COUNTRY MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010

SECTION II – FINANCIAL STATEMENT FINDINGS

SIGNIFICANT DEFICIENCY

Finding 2010-1 Late Charges/Adjustments —

- **Condition:** Late charges/adjustments are added to or removed from a patient's account
- **Effect:** Incomplete claims may cause revenues to be reported in the wrong accounting period
- **Cause:** Charges or adjustments are posted at a later date than the date of service due to coding and/or physician notes
- **Criteria:** Charges/adjustments should be posted to the patient's account in a timely manner
- **Recommendation:** The Hospital should run a report 5 to 10 days after month end to determine the amount of late charges and/or late adjustments and make necessary journal entries to record the amounts in the proper period

Management's Response:

Administration is evaluating the charging process and will make adjustments to minimize late charges/adjustments. Material adjustments/charges after month end will be recorded in the proper period.

HILL COUNTRY MEMORIAL HOSPITAL
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2010

Section III – Federal Award Findings and Questioned Costs

Finding 2010-1 Applicant Eligibility Documentation—

- **Criteria:** To be qualified as eligible under the Supplemental Nutrition Program for Women, Infants, and Children, (the “*Program*”), applicants must meet certain eligibility criteria as set forth under 7 CFR sections 246.7(c), (d), (e), and (l). To approve an applicant under the Program, the Hospital must view and verify certain information related to identity, residency, and income. While these documents are not required to be kept by the Hospital, documentation of items viewed to verify must be documented. The Hospital must also document the applicant’s nutritional risk as determined by a competent professional authority (e.g., physician, nutritionist, registered nurse, or other health professional).
- **Condition:** During sampling of eligibility, it was noted that 2 of 60 patients tested that were seen under the Program did not have proper documentation to verify the patients’ addresses. It was also noted that 1 of the 60 patients tested did not have nutrition risk documented in the patient file.
- **Cause:** All information was viewed, however proper documentation in the file was not made in regards to identity, residency, and nutritional risk.
- **Effect:** If proper procedures are not followed, it could result in a loss of funding under the Program.
- **Recommendation:** While not required by the Program, we recommend that controls be put into place that result in maintaining all documentation used to verify identity, residency, income, and nutrition risk to reduce the likelihood of future occurrences.

Management’s Response:

The process for determining eligibility will be reviewed and controls implemented to assure proper eligibility documentation.

HILL COUNTRY MEMORIAL HOSPITAL
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009

SECTION II – FINANCIAL STATEMENT FINDINGS

Finding 2009-1 Late Charges/Adjustments —

- **Condition:** Late charges/adjustments are added to or removed from a patient's account
- **Effect:** Incomplete claims may cause revenues to be reported in the wrong accounting period
- **Cause:** Charges or adjustments are posted at a later date than the date of service due to coding and/or physician notes
- **Criteria:** Charges/adjustments should be posted to the patient's account in a timely manner
- **Recommendation:** The Hospital should run a report 5 to 10 days after month end to determine the amount of late charges and/or late adjustments and make necessary journal entries to record the amounts in the proper period

Management's Response:

Administration is evaluating the charging process and will make adjustments to minimize late charges/adjustments. Material adjustments/charges after month end will be recorded in the proper period.

Current Status: The Hospital is still having late charges/adjustments.

Finding 2009-2 Timely Billing of Services —

- **Condition:** Billing for services after 30 days of discharge
- **Effect:** Inaccurate financial reporting
- **Cause:** Loss of coding personnel
- **Criteria:** Billing for services within 30 days of discharge
- **Recommendation:** The Hospital should review its procedures in this area and determine what an appropriate deadline may be for filing

Management's Response:

Administration reviewed the revenue cycle and made appropriate changes to assure timely billing of accounts.

Current Status: The Hospital's timely billing has improved.

HILL COUNTRY MEMORIAL HOSPITAL
SCHEDULE OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED DECEMBER 31, 2009

Section III – Federal Award Findings and Questioned Costs

No Items Noted

HILL COUNTRY MEMORIAL HOSPITAL

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2010

<u>Federal Grantor/Pass Through Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Expenditures</u>
<u>U S Department of Health and Human Services</u>			
Passed through State Department of Texas Department of State Health Services Centers for Disease Control and Prevention Investigations and Technical Assistance	93 283	2009-031573-001	\$ 23.670
<u>U S Department of Health and Human Services</u>			
Passed through State Department of Texas Department of State Health Services Centers for Disease Control and Prevention Investigations and Technical Assistance	93 283	2010-035901-001	38.895
<u>U S Department of Health and Human Services</u>			
Passed through State Department of Texas Department of State Health Services Maternal and Child Health Services Block Grant to the States	93 994	2010-031734-001	2.662
<u>U S Department of Health and Human Services</u>			
Passed through State Department of Texas Department of State Health Services Maternal and Child Health Services Block Grant to the States	93 994	2010-031674-001	2.964
<u>U S Department of Health and Human Services</u>			
Passed through State Department of Texas Department of State Health Services Maternal and Child Health Services Block Grant to the States	93 994	2011-036681-001	1.031
<u>U S Department of Health and Human Services</u>			
Passed through State Department of Texas Department of State Health Services Maternal and Child Health Services Block Grant to the States	93 994	2011-036941-001	716

HILL COUNTRY MEMORIAL HOSPITAL

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

FOR THE YEAR ENDED DECEMBER 31, 2010

<u>Federal Grantor/Pass Through Grantor and Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass Through Grantor's Number</u>	<u>Expenditures</u>
<u>U S Department of Health and Human Services</u>			
Passed through State Department of Texas Department of State Health Services Social Services Block Grant	93 667	2010-034078-001	47,029
<u>U S Department of Health and Human Services</u>			
Passed through State Department of Texas Department of State Health Services Social Services Block Grant	93 667	2011-036854-001	52,794
<u>U S Department of Health and Human Services</u>			
Passed through State Department of Texas Department of State Health Services Family Planning Services	93 217	2010-032229-001	22,818
<u>U S Department of Health and Human Services</u>			
Passed through State Department of Texas Department of State Health Services Family Planning Services	93 217	2011-037064-001	25,587
<u>U S Department of Agriculture Food and Nutrition Service</u>			
Passed through State Department of Texas Department of State Health Services Special Supplemental Nutrition Program for Women, Infants, and Children *	10-557	2010-033570-001	284,337
<u>U S Department of Agriculture Food and Nutrition Service</u>			
Passed through State Department of Texas Department of State Health Services Special Supplemental Nutrition Program for Women, Infants, and Children *	10-557	2011-037177-001	<u>93,090</u>
TOTAL FEDERAL FINANCIAL ASSISTANCE			<u>\$ 595,593</u>

* Denotes a major program