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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

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 Doing Business As Number and street (or P O box if mail is not delivered to street address) Room/suite PO Box 835 City or town, state or country, and ZIP + 4 Fredericksburg, TX 78624 | D Employer identification number 74-6083124 E Telephone number (830) 997-4353 G Gross receipts \$ 66,186,362 |
| 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 |

Part I Summary

| | | | | |
|------------------------------------|---|----------------------------------|---------------------|-----|
| 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 <hr/> <hr/> <hr/> | | | |
| | 2 Check this box <input type="checkbox"/> if the organization discontinued its operations or disposed of more than 25% of its net assets | | | |
| | 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 | | |
| Revenue | | Prior Year | Current Year | |
| | 8 Contributions and grants (Part VIII, line 1h) | 342,349 | 1,907,674 | |
| | 9 Program service revenue (Part VIII, line 2g) | 32,067,301 | 44,901,267 | |
| | 10 Investment income (Part VIII, column (A), lines 3, 4, and 7d) | -1,580,761 | 231,432 | |
| | 11 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c, and 11e) | 20,531,620 | 12,577,053 | |
| | 12 Total revenue—add lines 8 through 11 (must equal Part VIII, column (A), line 12) | 51,360,509 | 59,617,426 | |
| Expenses | | | | |
| | 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 | |
| Net Assets or Fund Balances | | 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 | |

Part II Signature Block

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 Mark Jones CFO Type or print name and title | 2011-11-09 Date |
|------------------|---|--------------------|

| | | | | |
|-------------------------------|---|---|---|---|
| Paid Preparer Use Only | Print/Type preparer's name Carol S McIntosh CPA Firm's name ▶ BKD LLP Firm's address ▶ 7901 Woodway Drive Suite 100 Waco, TX 76712 | Preparer's signature Carol S McIntosh CPA Date | Check if self-employed <input type="checkbox"/> | PTIN Firm's EIN ▶ 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

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)? <i>If "Yes," complete Schedule A.</i> | Yes | |
| 2 Is the organization required to complete Schedule B, Schedule of Contributors (see instruction)? | Yes | |
| 3 Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? <i>If "Yes," complete Schedule C, Part I.</i> | | 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? <i>If "Yes," complete Schedule C, Part II.</i> | 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? <i>If "Yes," complete Schedule C, Part III.</i> | | 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? <i>If "Yes," complete Schedule D, Part I.</i> | | 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? <i>If "Yes," complete Schedule D, Part II.</i> | | No |
| 8 Did the organization maintain collections of works of art, historical treasures, or other similar assets? <i>If "Yes," complete Schedule D, Part III.</i> | | 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? <i>If "Yes," complete Schedule D, Part IV.</i> | | No |
| 10 Did the organization, directly or through a related organization, hold assets in term, permanent, or quasi-endowments? <i>If "Yes," complete Schedule D, Part V.</i> | | 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? <i>If "Yes," complete Schedule D, Part VI.</i> | 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? <i>If "Yes," complete Schedule D, Part VII.</i> | | 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? <i>If "Yes," complete Schedule D, Part VIII.</i> | | 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? <i>If "Yes," complete Schedule D, Part IX.</i> | | No |
| e Did the organization report an amount for other liabilities in Part X, line 25? <i>If "Yes," complete Schedule D, Part X.</i> | 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)? <i>If "Yes," complete Schedule D, Part X.</i> | Yes | |
| 12a Did the organization obtain separate, independent audited financial statements for the tax year? <i>If "Yes," complete Schedule D, Parts XI, XII, and XIII.</i> | | No |
| b Was the organization included in consolidated, independent audited financial statements for the tax year? <i>If "Yes," and if the organization answered 'No' to line 12a, then completing Schedule D, Parts XI, XII, and XIII is optional.</i> | Yes | |
| 13 Is the organization a school described in section 170(b)(1)(A)(ii)? <i>If "Yes," complete Schedule E.</i> | | No |
| 14a Did the organization maintain an office, employees, or agents outside of the United States? | | 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? <i>If "Yes," complete Schedule F, Parts I and IV.</i> | | 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? <i>If "Yes," complete Schedule F, Parts II and IV.</i> | | 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? <i>If "Yes," complete Schedule F, Parts III and IV.</i> | | 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? <i>If "Yes," complete Schedule G, Part I (see instructions).</i> | | 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? <i>If "Yes," complete Schedule G, Part II.</i> | | No |
| 19 Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? <i>If "Yes," complete Schedule G, Part III.</i> | | No |
| 20a Did the organization operate one or more hospitals? <i>If "Yes," complete Schedule H.</i> | 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) | 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

Table with columns for question ID, question text, and Yes/No response. Includes questions 1a-14b regarding Form 1096, W-2G, Form W-3, and various organizational requirements.

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

Table with 3 columns: Question, Yes, No. Rows include: 1a (14), 1b (14), 2 (No), 3 (No), 4 (Yes), 5 (No), 6 (No), 7a (No), 7b (No), 8a (Yes), 8b (Yes), 9 (No).

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

Table with 3 columns: Question, Yes, No. Rows include: 10a (No), 10b (No), 11a (Yes), 12a (Yes), 12b (Yes), 12c (Yes), 13 (No), 14 (Yes), 15a (Yes), 15b (Yes), 16a (No), 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
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
20 State the name, physical address, and telephone number of the person who possesses the books and records of the organization

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 | | | |
| | 6a Gross Rents | (i) Real | (ii) Personal | | | |
| | | 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 | | |
| | 7a Gross amount from sales of assets other than inventory | (i) Securities | (ii) Other | | | |
| | | 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 | 78,135,797 | | |
| | b Less accumulated depreciation | 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)

Public Charity Status and Public Support

OMB No 1545-0047

2010

Open to Public Inspection

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.

Department of the Treasury
Internal Revenue Service

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?

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

- (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)

| (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 ▶ | | <input type="checkbox"/> |

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 III Support 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)

Political Campaign and Lobbying Activities

OMB No 1545-0047

For Organizations Exempt From Income Tax Under section 501(c) and section 527

2010

Open to Public Inspection

Complete if the organization is described below. Attach to Form 990 or Form 990-EZ. See separate instructions.

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

Table with 2 columns: Name of the organization (Hill Country Memorial Hospital) and 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? Yes No
4a Was a correction made? Yes 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? Yes No
5 Enter the names, addresses and employer identification number (EIN) of all section 527 political organizations to which the filing organization made payments

Table with 5 columns: (a) Name, (b) Address, (c) EIN, (d) Amount paid from filing organization's funds, (e) Amount of political contributions received

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 border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%; text-align: left;">If the amount on line 1e, column (a) or (b) is:</th> <th style="width: 50%; text-align: left;">The lobbying nontaxable amount is:</th> </tr> </thead> <tbody> <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> </tbody> </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 page Hospital 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)

OMB No 1545-0047

Supplemental Financial Statements

2010

Open to Public Inspection

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.

Department of the Treasury Internal Revenue Service

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.

Table with 2 columns: (a) Donor advised funds, (b) Funds and other accounts. Rows 1-4: Total number at end of year, Aggregate contributions to (during year), Aggregate grants from (during year), 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?
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?

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): Preservation of land for public use, Protection of natural habitat, Preservation of open space, Preservation of an historically important land area, Preservation of a certified historic structure.

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

- 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

Table with 2 columns: Held at the End of the Year. Rows 2a, 2b, 2c, 2d.

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?

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)?

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

Table with 2 columns: Description (1c-1f) and Amount

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.

Table with 6 columns: (a) Current Year, (b) Prior Year, (c) Two Years Back, (d) Three Years Back, (e) Four Years Back. Rows 1a-1g.

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

Table with 3 columns: Description (3a(i), 3a(ii), 3b), Yes, No

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.

Table with 5 columns: Description of investment, (a) Cost or other basis (investment), (b) Cost or other basis (other), (c) Accumulated depreciation, (d) Book value. Rows 1a-1e and Total.

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) | 1 | 59,617,426 |
| 2 | Total expenses (Form 990, Part IX, column (A), line 25) | 2 | 54,135,000 |
| 3 | Excess or (deficit) for the year Subtract line 2 from line 1 | 3 | 5,482,426 |
| 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) | 8 | 2,224,806 |
| 9 | Total adjustments (net) Add lines 4 - 8 | 9 | 2,185,134 |
| 10 | Excess or (deficit) for the year per financial statements Combine lines 3 and 9 | 10 | 7,667,560 |

Part XII Reconciliation of Revenue per Audited Financial Statements With Revenue per Return

| | | | |
|----------|---|-----------|------------|
| 1 | Total revenue, gains, and other support per audited financial statements | 1 | 66,109,007 |
| 2 | Amounts included on line 1 but not on Form 990, Part VIII, line 12 | | |
| a | Net unrealized gains on investments | 2a | -39,672 |
| b | Donated services and use of facilities | 2b | |
| c | Recoveries of prior year grants | 2c | |
| d | Other (Describe in Part XIV) | 2d | |
| e | Add lines 2a through 2d | 2e | -39,672 |
| 3 | Subtract line 2e from line 1 | 3 | 66,148,679 |
| 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 7b | 4a | |
| b | Other (Describe in Part XIV) | 4b | -6,531,253 |
| c | Add lines 4a and 4b | 4c | -6,531,253 |
| 5 | Total Revenue Add lines 3 and 4c . (This should equal Form 990, Part I, line 12) | 5 | 59,617,426 |

Part XIII Reconciliation of Expenses per Audited Financial Statements With Expenses per Return

| | | | |
|----------|--|-----------|------------|
| 1 | Total expenses and losses per audited financial statements | 1 | 60,666,253 |
| 2 | Amounts included on line 1 but not on Form 990, Part IX, line 25 | | |
| a | Donated services and use of facilities | 2a | |
| b | Prior year adjustments | 2b | |
| c | Other losses | 2c | |
| d | Other (Describe in Part XIV) | 2d | 6,531,253 |
| e | Add lines 2a through 2d | 2e | 6,531,253 |
| 3 | Subtract line 2e from line 1 | 3 | 54,135,000 |
| 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 7b | 4a | |
| b | Other (Describe in Part XIV) | 4b | |
| c | Add lines 4a and 4b | 4c | |
| 5 | Total expenses Add lines 3 and 4c . (This should equal Form 990, Part I, line 18) | 5 | 54,135,000 |

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

Complete if the organization answered "Yes" to Form 990, Part IV, question 20. 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 Financial Assistance and Certain Other Community Benefits at Cost

1a Did the organization have a financial assistance policy during the tax year? If "No," skip to question 6a. 1b If "Yes," is it a written policy? 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. 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. 3a Does the organization use Federal Poverty Guidelines (FPG) to determine eligibility for providing free care to low income individuals? 3b Does the organization use FPG to determine eligibility for providing discounted care to low income individuals? 4 Did 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. 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"? 5a Did the organization budget amounts for free or discounted care provided under its financial assistance policy during the tax year? 5b If "Yes," did the organization's financial assistance expenses exceed the budgeted amount? 5c 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? 6a Does the organization prepare a community benefit report during the tax year? 6b If "Yes," did the organization make it available to the public? 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

Table with 7 columns: (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. Rows include Financial Assistance at cost, Unreimbursed Medicaid, Unreimbursed costs—other means-tested government programs, Total Financial Assistance and Means-Tested Government Programs, Other Benefits (Community health improvement services, Health professions education, Subsidized health services, Research, Cash and in-kind contributions to community groups), Total Other Benefits, and Total (Add lines 7d and 7j).

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? | | | 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 |
| b 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 | | | | |
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| 9 | | | | |
| 10 | | | | |
| 11 | | | | |
| 12 | | | | |
| 13 | | | | |

Part V Facility Information

Section A. Hospital Facilities

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

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

Name and address

| | | Licensed hospital | General medical & surgical | Children's hospital | Teaching hospital | Critical access hospital | Research facility | ER-24 hours | ER-other | Other (Describe) |
|---|--|-------------------|----------------------------|---------------------|-------------------|--------------------------|-------------------|-------------|----------|------------------|
| 0 | Hill Country Memorial Hospital 1020 Kerrville Hwy Fredericksburg, TX 78624 | X | X | | | | | X | | |
| | | | | | | | | | | |
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Part V Facility Information *(continued)*

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 Facility - 0 | Part V, Line 19d - Other Billing Determination of Individuals Without Insurance | All patients are billed the same original amount. |
| Number of Hospital Facility - 0 | Part V, Line 17e - Other Actions Taken Before Any Collection Actions | Patient account representatives contact patients by phone before initiating collection actions. |
| Number of Hospital Facility - 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 Facility - 0 | Part V, Line 11h - Other Factors Used in Determining 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 eligibility 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.

Department of the Treasury
Internal Revenue Service

Name of the organization
Hill Country Memorial Hospital

Employer identification number

74-6083124

Part I Questions Regarding Compensation

Yes No

1a 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

- | | |
|---|--|
| <input type="checkbox"/> First-class or charter travel | <input type="checkbox"/> Housing allowance or residence for personal use |
| <input type="checkbox"/> Travel for companions | <input type="checkbox"/> Payments for business use of personal residence |
| <input type="checkbox"/> Tax idemnification and gross-up payments | <input type="checkbox"/> Health or social club dues or initiation fees |
| <input type="checkbox"/> Discretionary spending account | <input type="checkbox"/> Personal services (e g , maid, chauffeur, chef) |

b 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

1b

2 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?

2

3 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

- | | |
|--|---|
| <input type="checkbox"/> Compensation committee | <input checked="" type="checkbox"/> Written employment contract |
| <input type="checkbox"/> Independent compensation consultant | <input checked="" type="checkbox"/> Compensation survey or study |
| <input type="checkbox"/> Form 990 of other organizations | <input checked="" type="checkbox"/> Approval by the board or compensation committee |

4 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

a Receive a severance payment or change-of-control payment from the organization or a related organization?

4a No

b Participate in, or receive payment from, a supplemental nonqualified retirement plan?

4b No

c Participate in, or receive payment from, an equity-based compensation arrangement?

4c No

If "Yes" to any of lines 4a-c, list the persons and provide the applicable amounts for each item in Part III

Only 501(c)(3) and 501(c)(4) organizations only must complete lines 5-9.

5 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

a The organization?

5a No

b Any related organization?

5b No

If "Yes," to line 5a or 5b, describe in Part III

6 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

a The organization?

6a No

b Any related organization?

6b No

If "Yes," to line 6a or 6b, describe in Part III

7 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

7 No

8 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

8 No

9 If "Yes" to line 8, did the organization also follow the rebuttable presumption procedure described in Regulations section 53 4958-6(c)?

9 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 |
|------------|------------------|-------------|
|------------|------------------|-------------|

**Schedule K
(Form 990)**

OMB No 1545-0047

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.**

2010

**Open to Public
Inspection**

Department of the Treasury
Internal Revenue Service

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 | 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

| 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 reviews relevant wage survey and data to determine CEO compensation. For other officers, the CEO reviews 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 Bylaws were amended and restated as of June 8, 2010 as a result of a reorganization of the entities within the Hill Country Memorial Health System. Previously, the Health System served as the sole member of the Hospital and certain powers, including approval and removal of trustees and officers as well as approval of budgets, were 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 powers that were 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)**

Related Organizations and Unrelated Partnerships

OMB No 1545-0047

2010

Open to Public Inspection

▶ **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.**

Department of the Treasury
Internal Revenue Service

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 |
|---|-------------------------|--|---------------------|---------------------------|----------------------------------|
| | | | | | |
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| | | | | | |

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) Disproportionate 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 | |
| | | | | | | | | | | | | |
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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 |
|---|-------------------------|--|----------------------------------|--|------------------------------|------------------------------------|-----------------------------|
| | | | | | | | |
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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)

| | Yes | No |
|-----------|-----|----|
| 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) | | | |

Part VII **Supplemental Information**

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

| Identifier | Return Reference | Explanation |
|------------|------------------|-------------|
|------------|------------------|-------------|

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

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PARRISH • MOODY & FIKES, p.c.

CERTIFIED PUBLIC ACCOUNTANTS

7901 WOODWAY DRIVE, SUITE 100

WACO, TEXAS 76712

(254) 776-8244

FAX (254) 776-8277

E-MAIL pmf@pmfwaco.com

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 & Liles, 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 | 3,090,918 | 3,317,489 |
| | <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>\$ 4,761,800</u> | <u>\$ 640,759</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/> <u>\$ 53,598,295</u> | <hr/> <u>\$ 48,836,495</u> |

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 | 98,788 | (55,295) |
| 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) | <u>\$ 486,505</u> | <u>\$ 643,484</u> |

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 approximates its 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 is 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 are 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 approximates its 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 US 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 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