



See a Social Security Number? Say Something!
Report Privacy Problems to <https://public.resource.org/privacy>
Or call the IRS Identity Theft Hotline at 1-800-908-4490



Part III

Statement of Program Service Accomplishments

Check if Schedule O contains a response or note to any line in this Part III

☐ ☒

1

Briefly describe the organization's mission

HILL COUNTRY MEMORIAL HOSPITAL'S VISION IS EMPOWER OTHERS, CREATE HEALTHY THE HOSPITAL'S VALUES ARE OTHERS FIRST, COMPASSION, INNOVATION, ACCOUNTABILITY, AND STEWARDSHIP

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 organization's program service accomplishments for each of its three largest program services, as measured by expenses Section 501(c)(3) and 501(c)(4) organizations 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 \$ 55,388,847 including grants of \$ 997) (Revenue \$ 77,101,674)
	MEDICAL CARE SERVICES - PROVIDED HEALTH CARE SERVICES TO LOCAL RESIDENTS DAYS OF CARE INCLUDED ROUTINE - 7,618, INTENSIVE AND CRITICAL CARE UNITS - 1,162, NURSERY - 785, EMERGENCY ROOM CARE WAS PROVIDED FOR 14,374 VISITS, 132,571 LABORATORY TESTS WERE PERFORMED, 38,917 IMAGING PROCEDURES WERE PERFORMED, 33,175 PHYSICAL/OCCUPATIONAL/SPEECH THERAPY VISITS WERE PROVIDED, 4,232 OPERATIONS WERE PERFORMED, AND 479 BABIES WERE DELIVERED
4b	(Code) (Expenses \$ 2,294,678 including grants of \$) (Revenue \$ 2,458,583)
	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
4c	(Code) (Expenses \$ 862,546 including grants of \$) (Revenue \$ 950,506)
	WELLNESS CENTER - PROMOTES HEALTH AND WELLNESS BY PROVIDING PHYSICAL REHABILITATION FACILITIES AND FITNESS EQUIPMENT, CONDUCTING HEALTH SEMINARS AND CPR/FIRST AID CLASSES, PROVIDING NUTRITION INFORMATION THROUGH EDUCATION CLASSES AND DIETARY CONSULTATIONS, CONDUCTING HEALTH AND FITNESS SCREENINGS, FREE BLOOD PRESSURE CHECKS AND COUNSELING SEMINARS, AND OFFERING BREAST FEEDING SUPPLIES AND BREAST PUMP RENTALS, CHILDCARE AND YOUTH DAY CAMPS AS WELL AS MASSAGE THERAPY DURING 2013 THERE WERE 38,627 PARTICIPANTS IN WELLNESS CENTER PROGRAMS
	(Code) (Expenses \$ 309,843 including grants of \$) (Revenue \$ 346,268)
	WIC PROGRAM
	(Code) (Expenses \$ 290,244 including grants of \$) (Revenue \$ 183,646)
	CLINIC RENT INCOME
	(Code) (Expenses \$ including grants of \$) (Revenue \$ 204,207)
	OTHER RELATED ACTIVITIES
4d	Other program services (Describe in Schedule O)
	(Expenses \$ 600,087 including grants of \$) (Revenue \$ 734,121)
4e	Total program service expenses ▶ 59,146,158

Part IV Checklist of Required Schedules

	Yes	No
1 Is the organization described in section 501(c)(3) or 4947(a)(1) (other than a private foundation)? If "Yes," complete Schedule A 	1 Yes	
2 Is the organization required to complete Schedule B, Schedule of Contributors (see instructions)? 	2 Yes	
3 Did the organization engage in direct or indirect political campaign activities on behalf of or in opposition to candidates for public office? If "Yes," complete Schedule C, Part I 	3	No
4 Section 501(c)(3) organizations. Did the organization engage in lobbying activities, or have a section 501(h) election in effect during the tax year? If "Yes," complete Schedule C, Part II 	4 Yes	
5 Is the organization a section 501(c)(4), 501(c)(5), or 501(c)(6) organization that receives membership dues, assessments, or similar amounts as defined in Revenue Procedure 98-19? If "Yes," complete Schedule C, Part III 	5	No
6 Did the organization maintain any donor advised funds or any similar funds or accounts for which donors have the right to provide advice on the distribution or investment of amounts in such funds or accounts? If "Yes," complete Schedule D, Part I 	6	No
7 Did the organization receive or hold a conservation easement, including easements to preserve open space, the environment, historic land areas, or historic structures? If "Yes," complete Schedule D, Part II 	7	No
8 Did the organization maintain collections of works of art, historical treasures, or other similar assets? If "Yes," complete Schedule D, Part III 	8	No
9 Did the organization report an amount in Part X, line 21 for escrow or custodial account liability, serve as a custodian for amounts not listed in Part X, or provide credit counseling, debt management, credit repair, or debt negotiation services? If "Yes," complete Schedule D, Part IV 	9	No
10 Did the organization, directly or through a related organization, hold assets in temporarily restricted endowments, permanent endowments, or quasi-endowments? If "Yes," complete Schedule D, Part V 	10	No
11 If the organization's answer to any of the following questions is "Yes," then complete Schedule D, Parts VI, VII, VIII, IX, or X as applicable		
a Did the organization report an amount for land, buildings, and equipment in Part X, line 10? If "Yes," complete Schedule D, Part VI 	11a Yes	
b Did the organization report an amount for investments—other securities in Part X, line 12 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VII 	11b Yes	
c Did the organization report an amount for investments—program related in Part X, line 13 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part VIII 	11c	No
d Did the organization report an amount for other assets in Part X, line 15 that is 5% or more of its total assets reported in Part X, line 16? If "Yes," complete Schedule D, Part IX 	11d Yes	
e Did the organization report an amount for other liabilities in Part X, line 25? If "Yes," complete Schedule D, Part X 	11e Yes	
f Did the organization's separate or consolidated financial statements for the tax year include a footnote that addresses the organization's liability for uncertain tax positions under FIN 48 (ASC 740)? If "Yes," complete Schedule D, Part X 	11f	No
12a Did the organization obtain separate, independent audited financial statements for the tax year? If "Yes," complete Schedule D, Parts XI and XII 	12a	No
b Was the organization included in consolidated, independent audited financial statements for the tax year? If "Yes," and if the organization answered "No" to line 12a, then completing Schedule D, Parts XI and XII is optional 	12b Yes	
13 Is the organization a school described in section 170(b)(1)(A)(ii)? If "Yes," complete Schedule E	13	No
14a Did the organization maintain an office, employees, or agents outside of the United States?	14a	No
b Did the organization have aggregate revenues or expenses of more than \$10,000 from grantmaking, fundraising, business, investment, and program service activities outside the United States, or aggregate foreign investments valued at \$100,000 or more? If "Yes," complete Schedule F, Parts I and IV	14b	No
15 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of grants or other assistance to or for any foreign organization? If "Yes," complete Schedule F, Parts II and IV	15	No
16 Did the organization report on Part IX, column (A), line 3, more than \$5,000 of aggregate grants or other assistance to or for foreign individuals? If "Yes," complete Schedule F, Parts III and IV	16	No
17 Did the organization report a total of more than \$15,000 of expenses for professional fundraising services on Part IX, column (A), lines 6 and 11e? If "Yes," complete Schedule G, Part I (see instructions)	17	No
18 Did the organization report more than \$15,000 total of fundraising event gross income and contributions on Part VIII, lines 1c and 8a? If "Yes," complete Schedule G, Part II	18	No
19 Did the organization report more than \$15,000 of gross income from gaming activities on Part VIII, line 9a? If "Yes," complete Schedule G, Part III	19	No
20a Did the organization operate one or more hospital facilities? If "Yes," complete Schedule H 	20a Yes	
b If "Yes" to line 20a, did the organization attach a copy of its audited financial statements to this return? 	20b Yes	

Part IV

Checklist of Required Schedules (continued)

21	Did the organization report more than \$5,000 of grants or other assistance to any domestic organization or government 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 or 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, line 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 through 24d and complete Schedule K. If "No," go to line 25a</i>	24a		No
b	Did the organization invest any proceeds of tax-exempt bonds beyond a temporary period exception?	24b		
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		
d	Did the organization act as an "on behalf of" issuer for bonds outstanding at any time during the year?	24d		
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	Did the organization report any amount on Part X, line 5, 6, or 22 for receivables from or payables to any current or former officers, directors, trustees, key employees, highest compensated employees, or disqualified persons? <i>If so, 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 employee thereof, a grant selection committee member, or to a 35% controlled entity or family member of any of these persons? <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	Yes	
34	Was the organization related to any tax-exempt or taxable entity? <i>If "Yes," complete Schedule R, Part II, III, or IV, and Part V, line 1</i>	34	Yes	
35a	Did the organization have a controlled entity within the meaning of section 512(b)(13)?	35a	Yes	
b	If 'Yes' to line 35a, 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>	35b	Yes	
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 11b 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 or note to any line in this Part V <input type="checkbox"/>			
		Yes	No
1a	Enter the number reported in Box 3 of Form 1096. Enter -0- if not applicable.	1a	284
b	Enter the number of Forms W-2G included in line 1a. Enter -0- if not applicable.	1b	0
c	Did the organization comply with backup withholding rules for reportable payments to vendors and reportable gaming (gambling) winnings to prize winners?	1c	Yes
2a	Enter the number of employees reported on Form W-3, Transmittal of Wage and Tax Statements, filed for the calendar year ending with or within the year covered by this return.	2a	762
b	If at least one is reported on line 2a, did the organization file all required federal employment tax returns? Note. If the sum of lines 1a and 2a is greater than 250, you may be required to e-file (see instructions).	2b	Yes
3a	Did the organization have unrelated business gross income of \$1,000 or more during the year?	3a	No
b	If "Yes," has it filed a Form 990-T for this year? If "No" to line 3b, provide an explanation in Schedule O.	3b	
4a	At any time during the calendar year, did the organization have an interest in, or a signature or other authority over, a financial account in a foreign country (such as a bank account, securities account, or other financial account)?	4a	No
b	If "Yes," enter the name of the foreign country: _____ See instructions for filing requirements for Form TD F 90-22.1, Report of Foreign Bank and Financial Accounts.		
5a	Was the organization a party to a prohibited tax shelter transaction at any time during the tax year?	5a	No
b	Did any taxable party notify the organization that it was or is a party to a prohibited tax shelter transaction?	5b	No
c	If "Yes," to line 5a or 5b, did the organization file Form 8886-T?	5c	
6a	Does the organization have annual gross receipts that are normally greater than \$100,000, and did the organization solicit any contributions that were not tax deductible as charitable contributions?	6a	No
b	If "Yes," did the organization include with every solicitation an express statement that such contributions or gifts were not tax deductible?	6b	
7 Organizations that may receive deductible contributions under section 170(c).			
a	Did the organization receive a payment in excess of \$75 made partly as a contribution and partly for goods and services provided to the payor?	7a	No
b	If "Yes," did the organization notify the donor of the value of the goods or services provided?	7b	
c	Did the organization sell, exchange, or otherwise dispose of tangible personal property for which it was required to file Form 8282?	7c	No
d	If "Yes," indicate the number of Forms 8282 filed during the year.	7d	
e	Did the organization receive any funds, directly or indirectly, to pay premiums on a personal benefit contract?	7e	No
f	Did the organization, during the year, pay premiums, directly or indirectly, on a personal benefit contract?	7f	No
g	If the organization received a contribution of qualified intellectual property, did the organization file Form 8899 as required?	7g	
h	If the organization received a contribution of cars, boats, airplanes, or other vehicles, did the organization file a Form 1098-C?	7h	
8 Sponsoring organizations maintaining donor advised funds and section 509(a)(3) supporting organizations. Did the supporting organization, or a donor advised fund maintained by a sponsoring organization, have excess business holdings at any time during the year?		8	
9 Sponsoring organizations maintaining donor advised funds.			
a	Did the organization make any taxable distributions under section 4966?	9a	
b	Did the organization make a distribution to a donor, donor advisor, or related person?	9b	
10 Section 501(c)(7) organizations. Enter			
a	Initiation fees and capital contributions included on Part VIII, line 12.	10a	
b	Gross receipts, included on Form 990, Part VIII, line 12, for public use of club facilities.	10b	
11 Section 501(c)(12) organizations. Enter			
a	Gross income from members or shareholders.	11a	
b	Gross income from other sources (Do not net amounts due or paid to other sources against amounts due or received from them).	11b	
12a Section 4947(a)(1) non-exempt charitable trusts. Is the organization filing Form 990 in lieu of Form 1041?		12a	
b	If "Yes," enter the amount of tax-exempt interest received or accrued during the year.	12b	
13 Section 501(c)(29) qualified nonprofit health insurance issuers.			
a	Is the organization licensed to issue qualified health plans in more than one state? Note. See the instructions for additional information the organization must report on Schedule O.	13a	
b	Enter the amount of reserves the organization is required to maintain by the states in which the organization is licensed to issue qualified health plans.	13b	
c	Enter the amount of reserves on hand.	13c	
14a	Did the organization receive any payments for indoor tanning services during the tax year?	14a	No
b	If "Yes," has it filed a Form 720 to report these payments? If "No," provide an explanation in Schedule O.	14b	

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 or note to any line in this Part VI

Section A. Governing Body and Management

		Yes	No
1a	Enter the number of voting members of the governing body at the end of the tax year	13	
If there are material differences in voting rights among members of the governing body, or if the governing body delegated broad authority to an executive committee or similar committee, explain in Schedule O			
b	Enter the number of voting members included in line 1a, above, who are independent	13	
2	Did any officer, director, trustee, or key employee have a family relationship or a business relationship with any other officer, director, trustee, or key employee?	2	No
3	Did the organization delegate control over management duties customarily performed by or under the direct supervision of officers, directors or trustees, or key employees to a management company or other person?	3	No
4	Did the organization make any significant changes to its governing documents since the prior Form 990 was filed?	4	No
5	Did the organization become aware during the year of a significant diversion of the organization's assets?	5	No
6	Did the organization have members or stockholders?	6	No
7a	Did the organization have members, stockholders, or other persons who had the power to elect or appoint one or more members of the governing body?	7a	No
b	Are any governance decisions of the organization reserved to (or subject to approval by) members, stockholders, or persons other than the governing body?	7b	No
8	Did the organization contemporaneously document the meetings held or written actions undertaken during the year by the following		
a	The governing body?	8a	Yes
b	Each committee with authority to act on behalf of the governing body?	8b	Yes
9	Is there any officer, director, trustee, or key employee listed in Part VII, Section A, who cannot be reached at the organization's mailing address? If "Yes," provide the names and addresses in Schedule O	9	No

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

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

Section C. Disclosure

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

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

Check if Schedule O contains a response or note to any line 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 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, or 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 (list any hours for related organizations below dotted line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(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) DAVE CAMPBELL DIRECTOR	25 1 0	X						0	0	0
(2) LAURA COOK DIRECTOR/VICE CHAIR	25 1 0	X		X				0	0	0
(3) RICHARD ESTENSON DIRECTOR	25 1 0	X						0	0	0
(4) BRAD HARDIN DIRECTOR	25 1 0	X						0	0	0
(5) THOMAS HUTTON DIRECTOR	25 1 0	X						0	0	0
(6) JAMES LINDLEY DIRECTOR/SECRETARY	25 1 0	X		X				0	0	0
(7) PHIL MAPLE DIRECTOR	25 1 0	X						0	0	0
(8) DAN MITTEL DIRECTOR	25 1 0	X						0	0	0
(9) ROBERT MURRAY DIRECTOR	25 1 0	X						0	0	0
(10) GORDAN SAUER DIRECTOR/CHAIRMAN	25 1 0	X		X				0	0	0
(11) CRISOL SCHOESSOW DIRECTOR	25 1 0	X						0	0	0
(12) PAUL URBAN DIRECTOR	25 1 0	X						0	0	0
(13) MARC WILLIAMSON DIRECTOR	25 1 0	X						0	0	0
(14) DANIEL ROBERTSON DIRECTOR TERM DATE 2/12/13	25 39 75	X						0	514,940	16,757
(15) JAYNE POPE CEO START DATE 2/22/13	39 25 75			X				282,884	0	38,909
(16) MICHAEL WILLIAMS CEO TERM DATE 2/22/13	39 25 75			X				272,134	0	13,142
(17) MARK JONES CFO	39 25 75			X				249,852	0	29,180

Part VII

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

(A) Name and Title	(B) Average hours per week (list any hours for related organizations below dotted line)	(C) Position (do not check more than one box, unless person is both an officer and a director/trustee)						(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			
(18) DEBRA DOOLEY CSO	39 75 25				X			205,589	0	40,944
(19) STEVEN SOSLAND COO TERM DATE 11/2/13	40 0 0 0				X			197,702	0	30,021
(20) MONTY MOHON CBO TERM DATE 12/1/13	40 0 0 0				X			177,054	0	27,564
(21) JAMES PARTIN MD CMO	39 5 5				X			255,889	0	44,190
(22) MICHAEL BROWN LEAN SPECIALIST	40 0 0 0					X		257,768	0	0
(23) JEFF DARNABY LEAN SPECIALIST	40 0 0 0					X		215,066	0	8,572
(24) LE ANN MYERS PHARMACIST	40 0 0 0					X		150,186	0	23,811
(25) HOLLY JENNINGS PHARMACIST	40 0 0 0					X		134,553	0	0
(26) MAUREEN POLIVKA CNO	40 0 0 0					X		132,247	0	0
1b Sub-Total										
c Total from continuation sheets to Part VII, Section A										
d Total (add lines 1b and 1c)								2,530,924	514,940	273,090

2

Total number of individuals (including but not limited to those listed above) who received more than \$100,000 of reportable compensation from the organization▶21

		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. Report compensation for the calendar year ending with or within the organization's tax year.		
(A) Name and business address	(B) Description of services	(C) Compensation
ROGERS O'BREIN CONSTRUCTION, 1901 REGAL ROW DALLAS TX 75235	CONSTRUCTION	2,479,595
CARESTREAM HEALTH INC, DEPT CH 19286 PALATINE IL 60055	MAINTENANCE CONTRACT	517,686
PHILIPS HEALTHCARE, P O BOX 100355 ATLANTA GA 30384	MAINTENANCE CONTRACT	360,435
FREDERICKSBURG ANESTHESIA, 7032 COLLECTION CENTER DRIVE CHICAGO IL 60693	ANESTHESIA SERVICES	328,890
COMFORCE INC, 3492 MOMENTUM PLACE CHICAGO IL 60689	CONTRACT CODERS	303,633
2 Total number of independent contractors (including but not limited to those listed above) who received more than \$100,000 of compensation from the organization ▶20		

Part VIII

Statement of Revenue

Check if Schedule O contains a response or note to any line in this Part VIII

			(A) Total revenue	(B) Related or exempt function revenue	(C) Unrelated business revenue	(D) Revenue excluded from tax under sections 512-514
Contributions, Gifts, Grants and Other Similar Amounts	1a	Federated campaigns	1a			
	b	Membership dues	1b	525		
	c	Fundraising events	1c			
	d	Related organizations	1d	1,565,240		
	e	Government grants (contributions)	1e			
	f	All other contributions, gifts, grants, and similar amounts not included above	1f			
	g	Noncash contributions included in lines 1a-1f \$				
	h	Total. Add lines 1a-1f		1,565,765		
Program Service Revenue	2a	NET PATIENT HOSPITAL REVENUE	Business Code 621110	77,101,674	77,101,674	
	b	HOME HEALTHCARE REVENUE	621610	2,458,583	2,458,583	
	c	WELLNESS CTR SERVICE REVENUE	624100	950,506	950,506	
	d	WIC PROGRAM REVENUE	624100	346,268	346,268	
	e	CLINIC RENT REVENUE	621110	183,646	183,646	
	f	All other program service revenue				
	g	Total. Add lines 2a-2f		81,040,677		
	Other Revenue	3	Investment income (including dividends, interest, and other similar amounts)		168,435	
4		Income from investment of tax-exempt bond proceeds		0		
5		Royalties		0		
6a		(i) Real				
		(ii) Personal				
b		Less rental expenses				
c		Rental income or (loss)		0	0	
d		Net rental income or (loss)		0		
7a		(i) Securities				
		(ii) Other				
b		Less cost or other basis and sales expenses			1,472	
c		Gain or (loss)			3,028	
d		Net gain or (loss)		3,028		3,028
8a		Gross income from fundraising events (not including \$ _____ of contributions reported on line 1c) See Part IV, line 18				
a						
b		Less direct expenses				
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					
c	Net income or (loss) from gaming activities		0			
10a	Gross sales of inventory, less returns and allowances					
a			516,355			
b	Less cost of goods sold		312,148			
c	Net income or (loss) from sales of inventory		204,207	204,207		
Miscellaneous Revenue		Business Code				
11a	AUXILIARY REVENUE	722320	7,041		7,041	
b	CAFETERIA REVENUE	621990	216,949		216,949	
c	MEDICAL RECORDS	453220	13,901		13,901	
d	All other revenue		169,637		169,637	
e	Total. Add lines 11a-11d		407,528			
12	Total revenue. See Instructions		83,389,640	81,244,884		578,991

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).

Check if Schedule O contains a response or note to any line in this Part IX

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 United States. See Part IV, line 21.	497	497		
2	Grants and other assistance to individuals in the United States. See Part IV, line 22.	500	500		
3	Grants and other assistance to governments, organizations, and individuals outside the United States. 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.	1,864,555		1,864,555	
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.	24,741,451	20,058,966	4,682,485	
8	Pension plan accruals and contributions (include section 401(k) and 403(b) employer contributions).	641,465	529,280	112,185	
9	Other employee benefits.	3,150,777	2,644,319	506,458	
10	Payroll taxes.	1,818,203	1,446,452	371,751	
11	Fees for services (non-employees):				
a	Management.	0			
b	Legal.	177,705		177,705	
c	Accounting.	237,499		237,499	
d	Lobbying.	0			
e	Professional fundraising services. See Part IV, line 17.	0			
f	Investment management fees.	0			
g	Other (If line 11g amount exceeds 10% of line 25, column (A) amount, list line 11g expenses on Schedule O).	5,125,333	3,381,083	1,744,250	
12	Advertising and promotion.	268,135	6,213	261,922	
13	Office expenses.	1,847,800	1,274,116	573,684	
14	Information technology.	0			
15	Royalties.	0			
16	Occupancy.	7,701,352	7,398,865	302,487	
17	Travel.	241,872	191,481	50,391	
18	Payments of travel or entertainment expenses for any federal, state, or local public officials.	0			
19	Conferences, conventions, and meetings.	253,936	194,730	59,206	
20	Interest.	290,021	290,021		
21	Payments to affiliates.	0			
22	Depreciation, depletion, and amortization.	3,990,944	3,990,944		
23	Insurance.	69,635	69,635		
24	Other expenses. Itemize expenses not covered above (List miscellaneous expenses in line 24e. If line 24e amount exceeds 10% of line 25, column (A) amount, list line 24e expenses on Schedule O):				
a	MEDICAL SUPPLIES	12,128,815	12,128,815		
b	BAD DEBT EXPENSE	4,956,627	4,956,627		
c	DUES & SUBSCRIPTIONS	186,606	96,617	89,989	
d	LICENSE & PERMITS	46,800	41,573	5,227	
e	All other expenses	611,212	445,424	165,788	
25	Total functional expenses. Add lines 1 through 24e.	70,351,740	59,146,158	11,205,582	0
26	Joint costs. Complete this line only if the organization reported in column (B) joint costs from a combined educational campaign and fundraising solicitation. Check here <input type="checkbox"/> if following SOP 98-2 (ASC 958-720).				

Part X

Balance Sheet

Check if Schedule O contains a response or note to any line in this Part X ☐

				(A)		(B)
				Beginning of year		End of year
Assets	1	Cash—non-interest-bearing		5,459,131	1	11,843,076
	2	Savings and temporary cash investments		11,491,295	2	12,004,693
	3	Pledges and grants receivable, net		0	3	0
	4	Accounts receivable, net		7,059,759	4	10,014,437
	5	Loans and other receivables from current and former officers, directors, trustees, key employees, and highest compensated employees. Complete Part II of Schedule L		0	5	0
	6	Loans and other 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). Complete Part II of Schedule L		0	6	0
	7	Notes and loans receivable, net		0	7	0
	8	Inventories for sale or use		1,340,473	8	1,449,572
	9	Prepaid expenses and deferred charges		7,766,164	9	7,618,346
	10a	Land, buildings, and equipment: cost or other basis. Complete Part VI of Schedule D	10a 79,648,763			
	b	Less: accumulated depreciation	10b 43,264,312	35,207,216	10c	36,384,451
	11	Investments—publicly traded securities		0	11	0
	12	Investments—other securities. See Part IV, line 11		18,049,040	12	21,031,611
	13	Investments—program-related. See Part IV, line 11		0	13	0
	14	Intangible assets		0	14	0
	15	Other assets. See Part IV, line 11		4,818,401	15	8,266,103
	16	Total assets. Add lines 1 through 15 (must equal line 34)		91,191,479	16	108,612,289
Liabilities	17	Accounts payable and accrued expenses		6,801,136	17	7,601,738
	18	Grants payable		0	18	0
	19	Deferred revenue		0	19	0
	20	Tax-exempt bond liabilities		0	20	0
	21	Escrow or custodial account liability. Complete Part IV of Schedule D		0	21	0
	22	Loans and other payables to current and former officers, directors, trustees, key employees, highest compensated employees, and disqualified persons. Complete Part II of Schedule L		0	22	0
	23	Secured mortgages and notes payable to unrelated third parties		0	23	0
	24	Unsecured notes and loans payable to unrelated third parties		0	24	0
	25	Other liabilities (including federal income tax, payables to related third parties, and other liabilities not included on lines 17-24). Complete Part X of Schedule D		16,622,912	25	16,875,607
	26	Total liabilities. Add lines 17 through 25		23,424,048	26	24,477,345
Net Assets or Fund Balances		Organizations that follow SFAS 117 (ASC 958), check here <input checked="" type="checkbox"/> and complete lines 27 through 29, and lines 33 and 34.				
	27	Unrestricted net assets		49,718,391	27	63,103,333
	28	Temporarily restricted net assets		9,872,719	28	12,454,258
	29	Permanently restricted net assets		8,176,321	29	8,577,353
		Organizations that do not follow SFAS 117 (ASC 958), 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		67,767,431	33	84,134,944
	34	Total liabilities and net assets/fund balances		91,191,479	34	108,612,289

Part XI Reconciliation of Net Assets

Check if Schedule O contains a response or note to any line in this Part XI

1	Total revenue (must equal Part VIII, column (A), line 12)	1	83,389,640
2	Total expenses (must equal Part IX, column (A), line 25)	2	70,351,740
3	Revenue less expenses Subtract line 2 from line 1	3	13,037,900
4	Net assets or fund balances at beginning of year (must equal Part X, line 33, column (A))	4	67,767,431
5	Net unrealized gains (losses) on investments	5	333,152
6	Donated services and use of facilities	6	
7	Investment expenses	7	
8	Prior period adjustments	8	
9	Other changes in net assets or fund balances (explain in Schedule O)	9	2,996,461
10	Net assets or fund balances at end of year Combine lines 3 through 9 (must equal Part X, line 33, column (B))	10	84,134,944

Part XII Financial Statements and Reporting

Check if Schedule O contains a response or note to any line 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? If "Yes," check a box below to indicate whether the financial statements for the year were compiled or reviewed on a separate basis, consolidated basis, or both <input type="checkbox"/> Separate basis <input type="checkbox"/> Consolidated basis <input type="checkbox"/> Both consolidated and separate basis		No
2b	Were the organization's financial statements audited by an independent accountant? If "Yes," check a box below to indicate whether the financial statements for the year were audited 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 separate basis	Yes	
2c	If "Yes," to line 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	
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?		No
3b	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		

SCHEDULE A
(Form 990 or 990EZ)

Department of the
Treasury
Internal Revenue Service

Public Charity Status and Public Support

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

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

▶ Information about Schedule A (Form 990 or 990-EZ) and its instructions is at www.irs.gov/form990.

OMB No 1545-0047

2013

Open to Public Inspection

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

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

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

1

☐

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

2

☐

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

3

☒

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

4

☐

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

5

☐

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

6

☐

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

7

☐

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

8

☐

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

9

☐

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

10

☐

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

11

☐

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

a

☐

Type I

b

☐

Type II

c

☐

Type III - Functionally integrated

d

☐

Type III - Non-functionally integrated

e

☐

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

f

☐

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

g

☐

Since August 17, 2006, has the organization accepted any gift or contribution from any of the following persons?

(i)

A person who directly or indirectly controls, either alone or together with persons described in (ii) and (iii) below, the governing body of the supported organization?

(ii)

A family member of a person described in (i) above?

(iii)

A 35% controlled entity of a person described in (i) or (ii) above?

h

☐

Provide the following information about the supported organization(s)

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

(i) Name of supported organization	(ii) EIN	(iii) Type of organization (described on lines 1- 9 above or IRC section (see instructions))	(iv) Is the organization in col (i) listed in your governing document?		(v) Did you notify the organization in col (i) of your support?		(vi) Is the organization in col (i) organized in the U S ?		(vii) Amount of monetary 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) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(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) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(f) Total
7 Amounts from line 4						
8 Gross income from interest, dividends, payments received on securities loans, rents, royalties and income from similar sources						
9 Net income from unrelated business activities, whether or not the business is regularly carried on						
10 Other income Do not include gain or loss from the sale of capital assets (Explain in Part IV)						
11 Total support (Add lines 7 through 10)						
12 Gross receipts from related activities, etc (see instructions)					12	
13 First five years. If the Form 990 is for the organization's first, second, third, fourth, or fifth tax year as a 501(c)(3) organization, check this box and stop here ▶						

Section C. Computation of Public Support Percentage						
14 Public support percentage for 2013 (line 6, column (f) divided by line 11, column (f))		14				
15 Public support percentage for 2012 Schedule A, Part II, line 14		15				
16a 33 1/3% support test—2013. 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—2012. If the organization did not check a 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—2013. 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—2012. If the organization did not check a box on line 13, 16a, 16b, or 17a, and line 15 is 10% or more, and if the organization meets the "facts-and-circumstances" test, check this box and stop here. Explain in Part IV how the organization meets the "facts-and-circumstances" test The organization qualifies as a publicly supported organization						▶
18 Private foundation. If the organization did not check a box on line 13, 16a, 16b, 17a, or 17b, check this box and see instructions						▶

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

Section A. Public Support						
Calendar year (or fiscal year beginning in) ▶	(a) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(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) 2009	(b) 2010	(c) 2011	(d) 2012	(e) 2013	(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 501(c)(3) organization, check this box and stop here ▶						

Section C. Computation of Public Support Percentage		
15 Public support percentage for 2013 (line 8, column (f) divided by line 13, column (f))	15	
16 Public support percentage from 2012 Schedule A, Part III, line 15	16	

Section D. Computation of Investment Income Percentage		
17 Investment income percentage for 2013 (line 10c, column (f) divided by line 13, column (f))	17	
18 Investment income percentage from 2012 Schedule A, Part III, line 17	18	
19a 33 1/3% support tests—2013. 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—2012. 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.** 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

Return Reference	Explanation	
------------------	-------------	--

SCHEDULE C

(Form 990 or 990-EZ)

Department of the Treasury
Internal Revenue Service

Political Campaign and Lobbying Activities

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

▶ **Complete if the organization is described below. ▶ Attach to Form 990 or Form 990-EZ.**

▶ **See separate instructions. ▶ Information about Schedule C (Form 990 or 990-EZ) and its instructions is at *www.irs.gov/form990*.**

OMB No 1545-0047

2013

Open to Public Inspection

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Part II-A

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

- A
- Check ☐ if the filing organization belongs to an affiliated group (and list in Part IV each affiliated group member's name, address, EIN, expenses, and share of excess lobbying expenditures)
- B
- Check ☐ if the filing organization checked box A and "limited control" provisions apply

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

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

Lobbying Expenditures During 4-Year Averaging Period					
Calendar year (or fiscal year beginning in)	(a) 2010	(b) 2011	(c) 2012	(d) 2013	(e) Total
2a Lobbying nontaxable amount					
b Lobbying ceiling amount (150% of line 2a, column(e))					
c Total lobbying expenditures					
d Grassroots nontaxable 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)).

For each "Yes" response to lines 1a through 1i below, provide in Part IV a detailed description of the lobbying activity.		(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?	Yes		4,841
	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?		No	
	j Total. Add lines 1c through 1i.			4,841
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?			

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 carry over 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) and if either (a) BOTH Part III-A, lines 1 and 2, are answered "No" OR (b) Part III-A, line 3, is answered "Yes."

1	Dues, assessments and similar amounts from members	1	
2	Section 162(e) nondeductible lobbying and political expenditures (do not include amounts of political expenses for which the section 527(f) tax was paid).	2a	
a	Current year		
b	Carryover from last year		
c	Total		
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

Provide the descriptions required for Part I-A, line 1, Part I-B, line 4, Part I-C, line 5, Part II-A (affiliated group list), Part II-A, line 2, and Part II-B, line 1. Also, complete this part for any additional information.

Return Reference	Explanation
SCHEDULE C, PART II-B, LINE 1F	LOBBYING EXPENSES HILL COUNTRY MEMORIAL HOSPITAL PAID DUES TO ORGANIZATIONS, A PORTION OF WHICH IS DESIGNATED FOR LOBBYING EXPENSES DUES LOBBYING % LOBBYING \$ THA \$20,172 24 00% \$4,841 ----- ----- TOTAL \$20,172 \$4,841

Part IV

Return Reference

Explanation

SCHEDULE D
(Form 990)

Department of the Treasury
Internal Revenue Service

Supplemental Financial Statements

▶ Complete if the organization answered "Yes," to Form 990, Part IV, line 6, 7, 8, 9, 10, 11a, 11b, 11c, 11d, 11e, 11f, 12a, or 12b
▶ Attach to Form 990. ▶ See separate instructions. ▶ Information about Schedule D (Form 990) and its instructions is at www.irs.gov/form990.

OMB No 1545-0047

2013

Open to Public Inspection

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

Part I

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

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

Part II

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

1

Purpose(s) of conservation easements held by the organization (check all that apply)

☐ Preservation of land for public use (e g , recreation or education) ☐ Preservation of an historically important land area
☐ Protection of natural habitat ☐ Preservation of a certified historic structure
☐ Preservation of open space

2

Complete lines 2a through 2d if the organization held a qualified conservation contribution in the form of a conservation easement on the last day of the tax year

	Held at the End of the Year
a	Total number of conservation easements
b	Total acreage restricted by conservation easements
c	Number of conservation easements on a certified historic structure included in (a)
d	Number of conservation easements included in (c) acquired after 8/17/06, and not on a historic structure listed in the National Register

3

Number of conservation easements modified, transferred, released, extinguished, or terminated by the organization during the tax 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?

☐ Yes ☐ No

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 section 170(h)(4)(B)(ii)?

☐ Yes ☐ No

9

In Part XIII, 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 (ASC 958), 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 XIII, the text of the footnote to its financial statements that describes these items

b

If the organization elected, as permitted under SFAS 116 (ASC 958), 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 (ASC 958) 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 acquisition, 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 XIII
- 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 XIII and complete the following table
- c

Beginning balance

d

Additions during the year

e

Distributions during the year

f

Ending balance
- | | |
|----|--------|
| | Amount |
| 1c | |
| 1d | |
| 1e | |
| 1f | |
- 2a

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

☐ Yes

☐ No
- b

If "Yes," explain the arrangement in Part XIII. Check here if the explanation has been provided in Part XIII

☐

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

	(a)Current year	(b)Prior year	b (c)Two years back	(d)Three years back	(e)Four years back
1a Beginning of year balance					
b Contributions					
c Net investment earnings, gains, and losses					
d Grants or scholarships					
e Other expenditures for facilities and programs					
f Administrative expenses					
g End of year balance					

- 2

Provide the estimated percentage of the current year end balance (line 1g, column (a)) held as
- a

Board designated or quasi-endowment
- b

Permanent endowment
- c

Temporarily restricted endowment

The percentages in lines 2a, 2b, and 2c should equal 100%
- 3a

Are there endowment funds not in the possession of the organization that are held and administered for the organization by
- (i) unrelated organizations

3a(i)

Yes

No

(ii) related organizations

3a(ii)

b

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

3b
- Part VI Land, Buildings, and Equipment.** Complete if the organization answered 'Yes' to Form 990, Part IV, line 11a. See Form 990, Part X, line 10.
- | Description of property | (a) Cost or other basis (investment) | (b)Cost or other basis (other) | (c) Accumulated depreciation | (d) Book value |
|--|--------------------------------------|--------------------------------|------------------------------|----------------|
| 1a Land | | 4,896,017 | | 4,896,017 |
| b Buildings | | 41,032,296 | 18,550,712 | 22,481,584 |
| c Leasehold improvements | | 1,174,293 | | 1,174,293 |
| d Equipment | | 32,446,623 | 24,713,600 | 7,733,023 |
| e Other | | 99,534 | | 99,534 |
| Total. Add lines 1a through 1e (Column (d) must equal Form 990, Part X, column (B), line 10(c).) | | | | 36,384,451 |
- Schedule D (Form 990) 2013

Part XI

Reconciliation of Revenue per Audited Financial Statements With Revenue per Return

Complete if the organization answered 'Yes' to Form 990, Part IV, line 12a.

1	Total revenue, gains, and other support per audited financial statements	1	82,456,513
2	Amounts included on line 1 but not on Form 990, Part VIII, line 12		
a	Net unrealized gains on investments	2a	333,152
b	Donated services and use of facilities	2b	
c	Recoveries of prior year grants	2c	
d	Other (Describe in Part XIII)	2d	298,461
e	Add lines 2a through 2d	2e	631,613
3	Subtract line 2e from line 1	3	81,824,900
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 XIII)	4b	1,564,740
c	Add lines 4a and 4b	4c	1,564,740
5	Total revenue Add lines 3 and 4c. (This must equal Form 990, Part I, line 12)	5	83,389,640

Part XII

Reconciliation of Expenses per Audited Financial Statements With Expenses per Return.

Complete if the organization answered 'Yes' to Form 990, Part IV, line 12a.

1	Total expenses and losses per audited financial statements	1	70,650,201
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 XIII)	2d	298,461
e	Add lines 2a through 2d	2e	298,461
3	Subtract line 2e from line 1	3	70,351,740
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 XIII)	4b	
c	Add lines 4a and 4b	4c	
5	Total expenses Add lines 3 and 4c. (This must equal Form 990, Part I, line 18)	5	70,351,740

Part XIII

Supplemental Information

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, line 2, Part XI, lines 2d and 4b, and Part XII, lines 2d and 4b. Also complete this part to provide any additional information.

Return Reference	Explanation
SCHEDULE D, PART XI, LINE 2D	RECONCILIATION OF REVENUE PER AUDITED FINANCIAL STATEMENTS TO RETURN THRIFT SHOP EXPENSES \$312,148 AUXILIARY EXPENSES (13,687) ----- ----- TOTAL \$298,461
SCHEDULE D, PART XII, LINE 2D	RECONCILIATION OF EXPENSES PER AUDITED FINANCIAL STATEMENTS TO RETURN THRIFT SHOP EXPENSES \$312,148 AUXILIARY EXPENSES (13,687) ----- ----- TOTAL \$298,461
SCHEDULE D, PART XI, LINE 4B	RECONCILIATION OF REVENUE PER AUDITED FINANCIAL STATEMENTS TO RETURN CONTRIBUTION FROM FOUNDATION \$1,564,740
schedule d, part x, line 2	liability for uncertain tax positions The Hospital and its wholly owned subsidiaries have been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, these entities are subject to federal income tax on any unrelated business taxable income. HCMSC is taxed as a partnership. With few exceptions, the Hospital and its wholly owned subsidiaries are no longer subject to U S federal examinations by tax authorities for years before 2010.

[illegible]

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.
► Information about Schedule H (Form 990) and its instructions is at *www.irs.gov/form990*.

OMB No 1545-0047

2013

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

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

7

Financial Assistance and Certain Other Community Benefits at Cost

Financial Assistance and Means-Tested Government Programs	(a) Number of activities or programs (optional)	(b) Persons served (optional)	(c) Total community benefit expense	(d) Direct offsetting revenue	(e) Net community benefit expense	(f) Percent of total expense
a Financial Assistance at cost (from Worksheet 1)			2,501,554		2,501,554	3 830 %
b Medicaid (from Worksheet 3, column a)			3,101,435	2,846,384	255,051	0 390 %
c Costs of other means-tested government programs (from Worksheet 3, column b) . .			111,299	68,273	43,026	0 070 %
d Total Financial Assistance and Means-Tested Government Programs . .			5,714,288	2,914,657	2,799,631	4 290 %
Other Benefits						
e Community health improvement services and community benefit operations (from Worksheet 4)			34,945		34,945	0 050 %
f Health professions education (from Worksheet 5)						
g Subsidized health services (from Worksheet 6)			260,422		260,422	0 400 %
h Research (from Worksheet 7)						
i Cash and in-kind contributions for community benefit (from Worksheet 8)						
j Total Other Benefits			295,367		295,367	0 450 %
k Total . Add lines 7d and 7j . .			6,009,655	2,914,657	3,094,998	4 740 %

Part II

Community Building Activities

Complete this table if the organization conducted any 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					
7	Community health improvement advocacy					
8	Workforce development					
9	Other					
10	Total					

Part III

Bad Debt, Medicare, & Collection Practices

Section A. Bad Debt Expense

1

Did the organization report bad debt expense in accordance with Heathcare Financial Management Association Statement No. 15?

1

No

2

Enter the amount of the organization's bad debt expense. Explain in Part VI the methodology used by the organization to estimate this amount.

2

4,956,614

3

Enter the estimated amount of the organization's bad debt expense attributable to patients eligible under the organization's financial assistance policy. Explain in Part VI the methodology used by the organization to estimate this amount and the rationale, if any, for including this portion of bad debt as community benefit.

3

0

4

Provide in Part VI the text of the footnote to the organization's financial statements that describes bad debt expense or the page number on which this footnote is contained in the attached financial statements.

Section B. Medicare

5

Enter total revenue received from Medicare (including DSH and IME).

5

21,963,433

6

Enter Medicare allowable costs of care relating to payments on line 5.

6

24,582,756

7

Subtract line 6 from line 5. This is the surplus (or shortfall).

7

-2,619,323

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.
☐ Cost accounting system ☒ Cost to charge ratio ☐ Other

Section C. Collection Practices

9a

Did the organization have a written debt collection policy during the tax year?

9a

Yes

9b

If "Yes," did the organization's collection policy that applied to the largest number of its patients during the tax year contain provisions on the collection practices to be followed for patients who are known to qualify for financial assistance? Describe in Part VI.

9b

Yes

Part IV

Management Companies and Joint Ventures

(owned 10% or more by officers, directors, trustees, key employees, and physicians—see instructions)

(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 HILL COUNTRY				
2 MEMORIAL SURGERY CTR	SURGERY CENTER	51.000 %	7.000 %	3.500 %
3				
4				
5				
6				
7				
8				
9				
10				
11				
12				
13				

Part V

Facility Information

Section A. Hospital Facilities

(list in order of size from largest to smallest—see instructions)
How many hospital facilities did the organization operate during the tax year?
1

Name, address, primary website address, and state license number

		Licensed hospital	General medical & surgical	Children's hospital	Teaching hospital	Critical access hospital	Research facility	ER-24 hours	ER-other	Other (Describe)	Facility reporting group
	See Additional Data Table										

Part V

Facility Information (continued)

Section B. Facility Policies and Practices

(Complete a separate Section B for each of the hospital facilities or facility reporting groups listed in Part V, Section A)

HILL COUNTRY MEMORIAL HOSPITAL

Name of hospital facility or facility reporting group

If reporting on Part V, Section B for a single hospital facility only: line number of hospital facility (from Schedule H, Part V, Section A)

1

	Yes	No
Community Health Needs Assessment (Lines 1 through 8c are optional for tax years beginning on or before March 23, 2012)		
1 During the tax year or either of the two immediately preceding tax years, did the hospital facility conduct a community health needs assessment (CHNA)? If "No," skip to line 9 If "Yes," indicate what the CHNA report describes (check all that apply)	1 Yes	
a <input checked="" type="checkbox"/> A definition of the community served by the hospital facility		
b <input checked="" type="checkbox"/> Demographics of the community		
c <input checked="" type="checkbox"/> Existing health care facilities and resources within the community that are available to respond to the health needs of the community		
d <input checked="" type="checkbox"/> How data was obtained		
e <input checked="" type="checkbox"/> The health needs of the community		
f <input checked="" type="checkbox"/> Primary and chronic disease needs and other health issues of uninsured persons, low-income persons, and minority groups		
g <input checked="" type="checkbox"/> The process for identifying and prioritizing community health needs and services to meet the community health needs		
h <input checked="" type="checkbox"/> The process for consulting with persons representing the community's interests		
i <input checked="" type="checkbox"/> Information gaps that limit the hospital facility's ability to assess the community's health needs		
j <input checked="" type="checkbox"/> Other (describe in Part VI)		
2 Indicate the tax year the hospital facility last conducted a CHNA 20 <u>13</u>		
3 In conducting its most recent CHNA, did the hospital facility take into account input from persons who represent the broad interests of the community served by the hospital facility, including those with special knowledge of or expertise in public health? If "Yes," describe in Part VI how the hospital facility took into account input from persons who represent the community, and identify the persons the hospital facility consulted	3 Yes	
4 Was the hospital facility's CHNA conducted with one or more other hospital facilities? If "Yes," list the other hospital facilities in Part VI	4	No
5 Did the hospital facility make its CHNA report widely available to the public? If "Yes," indicate how the CHNA report was made widely available (check all that apply)	5 Yes	
a <input checked="" type="checkbox"/> Hospital facility's website (list url) <u>SEE SCHEDULE H, PART V, SECTION C</u>		
b <input type="checkbox"/> Other website (list url) _____		
c <input checked="" type="checkbox"/> Available upon request from the hospital facility		
d <input checked="" type="checkbox"/> Other (describe in Part VI)		
6 If the hospital facility addressed needs identified in its most recently conducted CHNA, indicate how (check all that apply as of the end of the tax year)		
a <input checked="" type="checkbox"/> Adoption of an implementation strategy that addresses each of the community health needs identified through the CHNA		
b <input checked="" type="checkbox"/> Execution of the implementation strategy		
c <input checked="" type="checkbox"/> Participation in the development of a community-wide plan		
d <input checked="" type="checkbox"/> Participation in the execution of a community-wide plan		
e <input type="checkbox"/> Inclusion of a community benefit section in operational plans		
f <input type="checkbox"/> Adoption of a budget for provision of services that address the needs identified in the CHNA		
g <input checked="" type="checkbox"/> Prioritization of health needs in its community		
h <input checked="" type="checkbox"/> Prioritization of services that the hospital facility will undertake to meet health needs in its community		
i <input type="checkbox"/> Other (describe in Part VI)		
7 Did the hospital facility address all of the needs identified in its most recently conducted CHNA? If "No," explain in Part VI which needs it has not addressed and the reasons why it has not addressed such needs	7	No
8a Did the organization incur an excise tax under section 4959 for the hospital facility's failure to conduct a CHNA as required by section 501(r)(3)?	8a	No
b If "Yes" to line 8a, did the organization file Form 4720 to report the section 4959 excise tax?	8b	
c If "Yes" to line 8b, what is the total amount of section 4959 excise tax the organization reported on Form 4720 for all of its hospital facilities? \$ _____		

Part V

Facility Information (continued)

Financial Assistance Policy		Yes	No
9	Did the hospital facility have in place during the tax year a written financial assistance policy that Explained eligibility criteria for financial assistance, and whether such assistance includes free or discounted care?	9	Yes
10	Used federal poverty guidelines (FPG) to determine eligibility for providing free care? If "Yes," indicate the FPG family income limit for eligibility for free care 200 % If "No," explain in Part VI the criteria the hospital facility used	10	Yes
11	Used FPG to determine eligibility for providing discounted care? If "Yes," indicate the FPG family income limit for eligibility for discounted care 300 % If "No," explain in Part VI the criteria the hospital facility used	11	Yes
12	Explained the basis for calculating amounts charged to patients? If "Yes," indicate the factors used in determining such amounts (check all that apply)	12	Yes
a	<input checked="" type="checkbox"/> Income level		
b	<input type="checkbox"/> Asset level		
c	<input checked="" type="checkbox"/> Medical indigency		
d	<input type="checkbox"/> Insurance status		
e	<input type="checkbox"/> Uninsured discount		
f	<input type="checkbox"/> Medicaid/Medicare		
g	<input type="checkbox"/> State regulation		
h	<input type="checkbox"/> Residency		
i	<input checked="" type="checkbox"/> Other (describe in Part VI)		
13	Explained the method for applying for financial assistance?	13	Yes
14	Included measures to publicize the policy within the community served by the hospital facility? If "Yes," indicate how the hospital facility publicized the policy (check all that apply)	14	Yes
a	<input checked="" type="checkbox"/> The policy was posted on the hospital facility's website		
b	<input checked="" type="checkbox"/> The policy was attached to billing invoices		
c	<input checked="" type="checkbox"/> The policy was posted in the hospital facility's emergency rooms or waiting rooms		
d	<input checked="" type="checkbox"/> The policy was posted in the hospital facility's admissions offices		
e	<input checked="" type="checkbox"/> The policy was provided, in writing, to patients on admission to the hospital facility		
f	<input checked="" type="checkbox"/> The policy was available upon request		
g	<input checked="" type="checkbox"/> Other (describe in Part VI)		
Billing and Collections			
15	Did the hospital facility have in place during the tax year a separate billing and collections policy, or a written financial assistance policy (FAP) that explained actions the hospital facility may take upon non-payment?	15	Yes
16	Check all of the following actions against an individual that were permitted under the hospital facility's policies during the tax year before making reasonable efforts to determine the individual's eligibility under the facility's FAP		
a	<input type="checkbox"/> Reporting to credit agency		
b	<input type="checkbox"/> Lawsuits		
c	<input type="checkbox"/> Liens on residences		
d	<input type="checkbox"/> Body attachments		
e	<input type="checkbox"/> Other similar actions (describe in Section C)		
17	Did the hospital facility or an authorized third party perform any of the following actions during the tax year before making reasonable efforts to determine the individual's eligibility under the facility's FAP? If "Yes," check all actions in which the hospital facility or a third party engaged	17	No
a	<input type="checkbox"/> Reporting to credit agency		
b	<input type="checkbox"/> Lawsuits		
c	<input type="checkbox"/> Liens on residences		
d	<input type="checkbox"/> Body attachments		
e	<input type="checkbox"/> Other similar actions (describe in Section C)		

Part V

Facility Information (continued)

- 18
- Indicate which efforts the hospital facility made before initiating any of the actions listed in line 17 (check all that apply)
- a

☒

Notified individuals of the financial assistance policy on admission
- b

☒

Notified individuals of the financial assistance policy prior to discharge
- c

☒

Notified individuals of the financial assistance policy in communications with the individuals regarding the individuals' bills
- d

☒

Documented its determination of whether individuals were eligible for financial assistance under the hospital facility's financial assistance policy
- e

☒

Other (describe in Section C)

Policy Relating to Emergency Medical Care

		Yes	No
19	Did the hospital facility have in place during the tax year a written policy relating to emergency medical care that requires the hospital facility to provide, without discrimination, care for emergency medical conditions to individuals regardless of their eligibility under the hospital facility's financial assistance policy? If "No," indicate why	Yes	
a	<input type="checkbox"/> The hospital facility did not provide care for any emergency medical conditions		
b	<input type="checkbox"/> The hospital facility's policy was not in writing		
c	<input type="checkbox"/> The hospital facility limited who was eligible to receive care for emergency medical conditions (describe in Part VI)		
d	<input type="checkbox"/> Other (describe in Part VI)		

Charges to Individuals Eligible for Assistance under the FAP (FAP-Eligible Individuals)

20	Indicate how the hospital facility determined, during the tax year, the maximum amounts that can be charged to FAP-eligible individuals for emergency or other medically necessary care		
a	<input type="checkbox"/> The hospital facility used its lowest negotiated commercial insurance rate when calculating the maximum amounts that can be charged		
b	<input type="checkbox"/> The hospital facility used the average of its three lowest negotiated commercial insurance rates when calculating the maximum amounts that can be charged		
c	<input type="checkbox"/> The hospital facility used the Medicare rates when calculating the maximum amounts that can be charged		
d	<input checked="" type="checkbox"/> Other (describe in Part VI)		
21	During the tax year, did the hospital facility charge any FAP-eligible individual to whom the hospital facility provided emergency or other medically necessary services more than the amounts generally billed to individuals who had insurance covering such care? If "Yes," explain in Part VI		No
22	During the tax year, did the hospital facility charge any FAP-eligible individual an amount equal to the gross charge for any service provided to that individual? If "Yes," explain in Part VI		No

Part V

Facility Information (continued)

Section D. Other Health Care Facilities That Are Not Licensed, Registered, or Similarly Recognized as a Hospital Facility
(list in order of size, from largest to smallest)

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

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

Part VI Supplemental Information

Provide the following information

- 1 **Required descriptions.** Provide the descriptions required for Part I, lines 3c, 6a, and 7, Part II and Part III, lines 2, 3, 4, 8 and 9b
- 2 **Needs assessment.** Describe how the organization assesses the health care needs of the communities it serves, in addition to any CHNAs 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

Form and Line Reference	Explanation
SCHEDULE H, PART I, LINE 7, COLUMN F	Financial Assistance & Certain Other Community Benefits at Cost THE AMOUNT OF BAD DEBT EXPENSES REMOVED FROM TOTAL EXPENSES FOR CALCULATING THE NET COMMUNITY BENEFIT PERCENTAGE WAS \$4,956,627
SCHEDULE H, PART III, SECTION A, LINE 2	Bad Debt THE AMOUNT ON LINE 2 IS BASED ON BAD DEBTS PER THE AUDITED FINANCIAL STATEMENTS Schedule H, Part III, Section A, line 3 Bad Debt Attributable to patients eligible under Financial Assistance Policy THE ORGANIZATION IS UNABLE TO ESTIMATE THE AMOUNT FOR LINE 3 AND HAS ELECTED TO LEAVE IT BLANK Schedule H, part III, section a, line 4 Bad Debt Footnote Accounts receivable are reduced by an allowance for doubtful accounts In evaluating the collectibility of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely) For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts The Hospitals allowance for uncollectible accounts for self-pay patients was approximately 92% and 95% of self-pay accounts receivable at December 31, 2013 and December 31, 2012, respectively Patient write-offs increased from approximately \$3,195,000 in 2012 to approximately \$6,520,000 in 2013 The increase in write-offs is the result of negative trends experienced in collections of amounts from self-pay patients in 2013

Form and Line Reference	Explanation
SCHEDULE H, PART III, SECTION B, LINE 8A	COSTING METHODOLOGY THE HOSPITAL USES COST REPORT METHODOLOGY, WHICH APPORTIONS ROUTINE COSTS BASED ON MEDICARE OR MEDICAID DAYS TO TOTAL DAYS AND APPORTIONS ANCILLARY COSTS BASED ON PROGRAM CHARGES TO TOTAL CHARGES THE ORGANIZATION HAD A MEDICARE SHORTFALL IN THE AMOUNT OF \$2,619,323 THE STATE OF TEXAS TREATS MEDICARE SHORTFALL AS COMMUNITY BENEFIT FOR MEETING STATUTORY REQUIREMENTS FOR CHARITY CARE AND COMMUNITY BENEFIT
SCHEDULE H, PART III, SECTION C, LINE 9B	PROVISIONS ON COLLECTION PRACTICES FOR QUALIFIED PATIENTS HILL COUNTRY MEMORIAL HOSPITAL'S COLLECTION POLICY EXCLUDES PATIENTS WHO ARE KNOWN TO QUALIFY FOR FINANCIAL ASSISTANCE OTHER FACTORS ARE USED IN DETERMINING AMOUNTS CHARGED TO PATIENTS

Form and Line Reference	Explanation
SCHEDULE H, PART VI, LINE 2	NEEDS ASSESSMENT HILL COUNTRY MEMORIAL 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 HILL COUNTRY MEMORIAL BREAST CENTER, HILL COUNTRY MEMORIAL COMMUNITY CLINIC, AND HILL COUNTRY MEMORIAL SLEEP LAB THE HILL COUNTRY MEMORIAL COMMUNITY CLINIC SERVES THE INDIGENT POPULATION AND THE SURVEYS ARE A KEY CONTRIBUTOR IN DETERMINING IF INDIGENT COMMUNITY NEEDS ARE BEING MET
SCHEDULE H, PART VI, LINE 3	PATIENT EDUCATION OF ELIGIBILITY FOR ASSISTANCE HILL COUNTRY MEMORIAL PATIENTS SPEAK WITH A HILL COUNTRY MEMORIAL 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

Form and Line Reference	Explanation
SCHEDULE H, PART VI, LINE 4	COMMUNITY INFORMATION THE ORGANIZATION SERVES EIGHT COUNTIES IN THE HILL COUNTRY GILLESPIE, BLANCO, BURNET, KENDALL, KERR, KIMBLE, MASON, AND LLANO THE PRIMARY SERVICE AREA OF GILLESPIE COUNTY (POP 25,753) ACCOUNTS FOR ABOUT 59% OF HILL COUNTRY MEMORIAL PATIENTS THE TOTAL SERVICE AREA POPULATION IS 191,806, AND THE AVERAGE PATIENT AGE IS 69 YEARS OLD
SCHEDULE H, PART VI, LINE 5	PROMOTION OF COMMUNITY HEALTH THE ORGANIZATION FURTHERS ITS EXEMPT PURPOSE THROUGH UP TO 40 PUBLIC HEALTH EVENTS AND SCREENINGS A YEAR WHICH ARE ADVERTISED AND WELL ATTENDED THE HILL COUNTRY MEMORIAL 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 AUXILLARY, 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 HILL COUNTRY MEMORIAL ALSO COLLABORATES WITH CITY AND COUNTY OFFICIALS TO PREPARE FOR EMERGENCY SCENARIOS HILL COUNTRY MEMORIAL INVITES CITY AND COUNTY EMERGENCY OFFICIALS TO PARTICIPATE IN MOCK EMERGENCY SITUATIONS TO PREPARE FOR AN ACTUAL, LIKELY EMERGENCY BASED ON THE GEOGRAPHIC PROXIMITY OF THE HOSPITAL, SUCH AS A TORNADO OR MAJOR CHEMICAL SPILL COLLABORATING WITH THE CITY OF FREDERICKSBURG, PHYSICIANS AND THE FREDERICKSBURG CHAMBER OF COMMERCE, HILL COUNTRY MEMORIAL FUNDED THE CREATION OF AN ARCHITECTURAL PLAN FOR THE CENTER

Form and Line Reference	Explanation
SCHEDULE H, PART VI, LINE 6	AFFILIATED HEALTH CARE SYSTEM THE HOSPITAL IS PART OF A SYSTEM WHICH INCLUDES TEN ORGANIZATIONS HILL COUNTRY MEMORIAL HOSPITAL PROVIDES HEALTHCARE, HILL COUNTRY MEMORIAL FOUNDATION PROVIDES FUNDRAISING, HILL COUNTRY PHYSICIAN ASSOCIATES PROVIDES HEALTHCARE, HILL COUNTRY PRIMARY CARE PHYSICIANS PROVIDES HEALTHCARE, AND GREATER HILL COUNTRY HOSPICE PROVIDES HOSPICE SERVICE ALSO , through july 2013, THE HOSPITAL was A MEMBER OF A SERVICE ORGANIZATION WHICH WAS FORMED TO ACCESS SUPPLEMENTAL MEDICAID FUNDING IN ADDITION, THE AFFILIATED HEALTH CARE SYSTEM INCLUDES THE FOLLOWING INACTIVE ENTITIES HILL COUNTRY MEMORIAL HEALTH SYSTEM, HILL COUNTRY COMMUNITY SERVICES, HILL COUNTRY MEMORIAL OFFICE BUILDING, AND HILL COUNTRY WELLNESS CENTER
SCHEDULE H, PART VI, LINE 7	STATE FILING OF COMMUNITY BENEFIT REPORT TEXAS

Schedule J
(Form 990)

Department of the Treasury
Internal Revenue Service

Compensation Information

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

▶ Complete if the organization answered "Yes" to Form 990, Part IV, line 23.
▶ Attach to Form 990. ▶ See separate instructions.

▶ Information about Schedule J (Form 990) and its instructions is at www.irs.gov/form990.

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization
Hill Country Memorial Hospital

Employer identification number
74-6083124

Part I

Questions Regarding Compensation

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

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) for each listed individual must equal the total amount of Form 990, Part VII, Section A, line 1a, applicable column (D) and (E) amounts for that individual

(A) Name and Title		(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 as deferred in prior Form 990
		(i) Base compensation	(ii) Bonus & incentive compensation	(iii) Other reportable compensation				
See Additional Data Table								

Part III Supplemental Information

Provide the information, explanation, or descriptions required for Part I, lines 1a, 1b, 3, 4a, 4b, 4c, 5a, 5b, 6a, 6b, 7, and 8, and for Part II

Also complete this part for any additional information

Return Reference	Explanation
schedule j, part i, line 1a	INFORMATION REGARDING BENEFITs PROVIDED HOUSING was PAID FOR MAUREEN POLIVKA AND TREATED AS TAXABLE COMPENSATION
schedule j, part i, line 4A	severance payments MONTY MOHON - \$ 78,470

Additional Data

Software ID:
Software Version:
EIN: 74-6083124
Name: Hill Country Memorial Hospital

Form 990, Schedule J, Part II - Officers, Directors, Trustees, Key Employees, and Highest Compensated Employees

(A) Name		(B) Breakdown of W-2 and/or 1099-MISC compensation			(C) 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 compensation				
JAYNE POPE CEO START DATE 2/22/13	(i) (ii)	265,384 0	0 0	17,500 0	14,508 0	24,401 0	321,793 0	0 0
MICHAEL WILLIAMS CEO TERM DATE 2/22/13	(i) (ii)	63,558 0	175,000 0	33,576 0	10,000 0	3,142 0	285,276 0	0 0
MARK JONES CFO	(i) (ii)	242,929 0	0 0	6,923 0	18,307 0	10,873 0	279,032 0	0 0
DEBRA DOOLEY CSO	(i) (ii)	194,589 0	0 0	11,000 0	16,673 0	24,271 0	246,533 0	0 0
STEVEN SOSLAND COO TERM DATE 11/2/13	(i) (ii)	175,249 0	0 0	22,453 0	8,000 0	22,021 0	227,723 0	0 0
MONTY MOHON CBO TERM DATE 12/1/13	(i) (ii)	83,506 0	0 0	93,548 0	0 0	27,564 0	204,618 0	0 0
JAMES PARTIN MD CMO	(i) (ii)	255,889 0	0 0	0 0	15,000 0	29,190 0	300,079 0	0 0
MICHAEL BROWN LEAN SPECIALIST	(i) (ii)	257,000 0	768 0	0 0	0 0	0 0	257,768 0	0 0
JEFF DARNABY LEAN SPECIALIST	(i) (ii)	214,298 0	768 0	0 0	8,572 0	0 0	223,638 0	0 0
LE ANN MYERS PHARMACIST	(i) (ii)	149,425 0	761 0	0 0	12,186 0	11,625 0	173,997 0	0 0
DANIEL ROBERTSON DIRECTOR TERM DATE 2/12/13	(i) (ii)	0 514,940	0 0	0 0	0 0	0 16,757	0 531,697	0 0

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.
▶ Information about Schedule O (Form 990 or 990-EZ) and its instructions is at
www.irs.gov/form990.

OMB No 1545-0047

2013

Open to Public
Inspection

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

990 Schedule O, Supplemental Information

Return Reference	Explanation
form 990, part III, line 4d	
form 990, part vi, section a, line 1	Delegation of Authority The Executive committee shall consist of the Chairman, Vice-Chairman, Secretary and one at-large trustee The CEO and Chief of the Hospital's Medical Staff shall be ex-officio, non-voting members of the executive committee The committee shall have the power to transact business of the corporation and the hospital subject to any prior limitation imposed by the board the executive committee shall have such additional duties and responsibilities as may be set forth in the bylaws Actions of the executive committee shall be brought to the board at the next regular meeting for ratification form 990, part vi, section b, line 11b PROCESS TO REVIEW THE FORM 990 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 ALL BOARD MEMBERS ARE ALSO PROVIDED A LINK TO ACCESS THE 990 FOR REVIEW BEFORE FILING
FORM 990, PART VI, SECTION B, LINE 12C	PROCESS FOR MONITORING COMPLIANCE WITH CONFLICT OF INTEREST POLICY 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
FORM 990, PART VI, SECTION B, LINE 15A	COMPENSATION REVIEW & APPROVAL PROCESS FOR CEO THE EXECUTIVE COMMITTEE OF THE BOARD REVIEWS RELEVANT WAGE SURVEY AND DATA TO DETERMINE CEO COMPENSATION DATA AND SURVEYS SUPPLIED BY THE HUMAN RESOURCE DIRECTOR
form 990, part vi, section b, line 15b	COMPENSATION REVIEW & APPROVAL PROCESS FOR Other officers THE CEO REVIEWS WAGE DATA AND SURVEYS SUPPLIED BY THE HUMAN RESOURCE DIRECTOR
FORM 990, PART VI, SECTION C, LINE 19	AVAILABILITY OF DOCUMENTS THE ORGANIZATION'S GOVERNING DOCUMENTS, CONFLICT OF INTEREST POLICIES AND FINANCIAL STATEMENTS ARE MADE AVAILABLE TO THE PUBLIC UPON REQUEST
FORM 990, PART XI, LINE 9	OTHER CHANGES IN NET ASSETS CHANGES IN TEMPORARILY RESTRICTED NET ASSETS \$4,146,279 CHANGES IN PERMANENTLY RESTRICTED NET ASSETS \$401,032 PRIOR PERIOD ADJUSTMENT FOR AUXILIARY \$13,890 cONTRIBUTION from Foundation \$(1,564,740) ----- ----- \$2,996,461

SCHEDULE R
(Form 990)

Department of the Treasury
Internal Revenue Service

Related Organizations and Unrelated Partnerships

▶ Complete if the organization answered "Yes" on Form 990, Part IV, line 33, 34, 35b, 36, or 37.
▶ Attach to Form 990. ▶ See separate instructions.
▶ Information about Schedule R (Form 990) and its instructions is at www.irs.gov/form990.

OMB No 1545-0047

2013

Open to Public Inspection

Name of the organization
Hill Country Memorial Hospital

Employer identification number
74-6083124

Part I Identification of Disregarded Entities Complete if the organization answered "Yes" on Form 990, Part IV, line 33.					
(a) Name, address, and EIN (if applicable) 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
(1) HILL COUNTRY MEMORIAL AUXILIARY 1020 KERRVILLE HWY FREDERICKSBURG, TX 78624	SUPPORT	TX	34,475	105,701	HCMH

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 entity?	
						Yes	No
See Additional Data Table							

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	
(1) HILL COUNTRY MEMORIAL SURGERY 204 GATEWAY CIRCLE A MARBLE FALLS, TX 78624 33-1039828	SURGERY CENTER	TX	HCMH	RELATED	-248,605	481,143		No	0	Yes		51 000 %

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	(i) Section 512 (b)(13) controlled entity?	
								Yes	No

Part V

Transactions With Related Organizations

Complete if the organization answered "Yes" on Form 990, Part IV, line 34, 35b, or 36.

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

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 or (iv) rent from a controlled entity

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

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

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

e Loans or loan guarantees by related organization(s)

f Dividends from related organization(s)

g Sale of assets to related organization(s)

h Purchase of assets from related organization(s)

i Exchange of assets with related organization(s)

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

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

l Performance of services or membership or fundraising solicitations for related organization(s)

m Performance of services or membership or fundraising solicitations by related organization(s)

n Sharing of facilities, equipment, mailing lists, or other assets with related organization(s)

o Sharing of paid employees with related organization(s)

p Reimbursement paid to related organization(s) for expenses

q Reimbursement paid by related organization(s) for expenses

r Other transfer of cash or property to related organization(s)

s Other transfer of cash or property from related organization(s)

Yes

No

1a

No

1b

No

1c

Yes

1d

No

1e

No

1f

No

1g

No

1h

No

1i

No

1j

Yes

1k

No

1l

No

1m

Yes

1n

Yes

1o

Yes

1p

No

1q

Yes

1r

Yes

1s

No

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 related organization	(b) Transaction type (a-s)	(c) Amount involved	(d) Method of determining amount involved
(1) GREATER HILL COUNTRY HOSPICE	Q	3,681,640	FMV
(2) HILL COUNTRY PHYSICIAN ASSOCIATES	r	78,328	FMV
(3) HILL COUNTRY PRIMARY CARE PHYSICIANS	R	1,081,741	FMV
(4) HILL COUNTRY MEMORIAL SURGERY CENTER	R	732,500	FMV

Schedule R (Form 990) 2013

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

[illegible]

Part VII

Supplemental Information

Provide additional information for responses to questions on Schedule R (see instructions)

Return Reference	Explanation
------------------	-------------

Additional Data

Software ID:
Software Version:
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 entity?	
						Yes	No
(1) HILL COUNTRY MEMORIAL HEALTH SYSTEM 1020 KERRVILLE HWY FREDERICKSBURG, TX 78624 74-2858904	SUPPORT	TX	501(C)(3)	11A	HCMH	Yes	
(1) HILL COUNTRY MEMORIAL FOUNDATION 1020 KERRVILLE HWY FREDERICKSBURG, TX 78624 74-2557105	FUNDRAISING	TX	501(C)(3)	11C	NA		No
(2) HILL COUNTRY MEMORIAL COMMUNITY SVCS 1020 KERRVILLE HWY FREDERICKSBURG, TX 78624 74-2858907	HOME CARE SVC	TX	501(C)(3)	11C	HCMH	Yes	
(3) HILL COUNTRY MEM MEDICAL OFFICE BLDG 1020 KERRVILLE HWY FREDERICKSBURG, TX 78624 74-2858909	OFFICE BLDG	TX	501(C)(3)	11C	HCMH	Yes	
(4) HILL COUNTRY WELLNESS CENTER 1020 KERRVILLE HWY FREDERICKSBURG, TX 78624 74-2858905	HEALTH ED	TX	501(C)(3)	11C	HCMH	Yes	
(5) HILL COUNTRY PHYSICIAN ASSOCIATES 1020 KERRVILLE HWY FREDERICKSBURG, TX 78624 26-2553196	HEALTHCARE	TX	501(C)(3)	11A	HCMH	Yes	
(6) HILL COUNTRY PRIMARY CARE PHYSICIANS 1020 KERRVILLE HWY FREDERICKSBURG, TX 78624 27-2860109	HEALTHCARE	TX	501(C)(3)	3	HCMH	Yes	
(7) GREATER HILL COUNTRY HOSPICE PO BOX 835 FREDERICKSBURG, TX 78624 74-2912643	HOSPICE	TX	501(C)(3)	3	HCMH	Yes	
(8) HEALTHCARE PARTNERSHIP OF GREATER SAN AN 551 HILL COUNTRY DRIVE KERRVILLE, TX 78028 45-0599888	HEALTHCARE	TX	501(C)(3)	7	NA		No

Hill Country Memorial Hospital

Independent Auditor's Report and Consolidated Financial Statements

December 31, 2013 and 2012



Hill Country Memorial Hospital

December 31, 2013 and 2012

Contents

Independent Auditor's Report	1
------------------------------------	---

Consolidated Financial Statements

Balance Sheets	2
Statements of Operations	3
Statements of Changes in Net Assets	4
Statements of Cash Flows	5
Notes to Financial Statements	6

Praxity

Hill Country Memorial Hospital

Consolidated Balance Sheets

December 31, 2013 and 2012

Assets

	2013	2012
Current Assets		
Cash and cash equivalents	\$ 21,195,553	\$ 17,288,005
Patient accounts receivable, net of allowance. 2013 – \$6,059,000. 2012 – \$6,956,000	9,437,343	8,340,624
Estimated amounts due from third-party payers	1,555,133	-
Assets limited as to use – current	650,000	175,000
Supplies	1,620,476	1,340,473
Prepaid expenses and other	2,979,011	1,300,471
	<hr/>	<hr/>
Total current assets	37,437,516	28,444,573
	<hr/>	<hr/>
Assets Limited As To Use		
Held by trustee for self-insurance	797,485	793,431
Less amounts required to meet current obligations	650,000	175,000
	<hr/>	<hr/>
	147,485	618,431
	<hr/>	<hr/>
Long-term Investments	4,000,237	-
	<hr/>	<hr/>
Property and Equipment, At Cost		
Land and land improvements	6,070,310	6,070,310
Buildings and improvements	41,263,469	38,129,082
Equipment	35,357,220	33,281,114
Construction in progress	99,534	15,974
	<hr/>	<hr/>
	82,790,533	77,496,480
Less accumulated depreciation	45,582,042	41,436,913
	<hr/>	<hr/>
	37,208,491	36,059,567
	<hr/>	<hr/>
Other Assets		
Interest in net assets of HCMH Foundation	21,031,611	18,049,040
Purchase option	5,316,664	5,500,000
Other assets	550,000	714,529
	<hr/>	<hr/>
	26,898,275	24,263,569
	<hr/>	<hr/>
Total assets	<u>\$ 105,692,004</u>	<u>\$ 89,386,140</u>

Liabilities and Net Assets

	2013	2012
Current Liabilities		
Current maturities of long-term debt	\$ 48,900	\$ 66,381
Current portion of financing obligation	645,073	602,754
Estimated self-insurance costs - current portion	650,000	175,000
Estimated amounts due to third-party payers	8,571,414	8,759,989
Accounts payable	3,963,697	1,526,631
Accrued expenses	4,133,934	4,439,847
Total current liabilities	18,013,018	15,570,602
Estimated Self-insurance Costs	250,000	926,000
Financing Obligation	6,694,548	7,397,246
Long-term Debt	17,726	66,654
Refundable Advance	300,000	300,000
Total liabilities	25,275,292	24,260,502
Net Assets		
Unrestricted		
Hill Country Memorial Hospital	59,647,012	46,971,743
Noncontrolling interest	(261,911)	104,855
	59,385,101	47,076,598
Temporarily restricted	12,454,258	9,872,719
Permanently restricted	8,577,353	8,176,321
Total net assets	80,416,712	65,125,638
Total liabilities and net assets	\$ 105,692,004	\$ 89,386,140

Hill Country Memorial Hospital

Consolidated Statements of Operations

Years Ended December 31, 2013 and 2012

	2013	2012
Unrestricted Revenues, Gains and Other Support		
Patient service revenue (net of contractual discounts and allowances)	\$ 78,470,719	\$ 71,213,916
Provision for uncollectible accounts	4,956,614	5,581,797
Net patient service revenue less provision for uncollectible accounts	73,514,105	65,632,119
Supplemental Medicaid funding	12,619,845	677,380
Other revenue	3,767,122	4,114,805
Net assets released from restrictions used for operations	2,800	222,088
Total unrestricted revenues, gains and other support	89,903,872	70,646,392
Expenses and Losses		
Salaries and wages	33,617,924	30,102,741
Employee benefits	6,909,955	6,499,859
Purchased services and professional fees	8,529,132	7,879,357
Supplies and other	26,062,647	20,834,435
Depreciation	4,246,471	4,352,141
Interest	297,312	421,474
Total expenses and losses	79,663,441	70,090,007
Operating Income	10,240,431	556,385
Other Income		
Investment return	506,132	65,583
Total other income	506,132	65,583
Excess of Revenues Over Expenses	10,746,563	621,968
Purchase of interest in Hill Country Memorial Surgery Center	-	342,788
Net assets released from restriction used for acquisition of property and equipment	1,561,940	541,277
Increase in Unrestricted Net Assets	\$ 12,308,503	\$ 1,506,033

Hill Country Memorial Hospital

Consolidated Statements of Changes in Net Assets

Years Ended December 31, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Unrestricted Net Assets		
Excess of revenues over expenses	\$ 10,746,563	\$ 621,968
Purchase of interest in Hill Country Memorial Surgery Center	-	342,788
Net assets released from restriction used for acquisition of property and equipment	<u>1,561,940</u>	<u>541,277</u>
Increase in unrestricted net assets	<u>12,308,503</u>	<u>1,506,033</u>
Temporarily Restricted Net Assets		
Change in interest in net assets of HCMH Foundation	4,146,279	2,167,892
Net assets released from restriction	<u>(1,564,740)</u>	<u>(763,365)</u>
Increase in temporarily restricted net assets	<u>2,581,539</u>	<u>1,404,527</u>
Permanently Restricted Net Assets		
Change in interest in net assets of HCMH Foundation	<u>401,032</u>	<u>41,446</u>
Increase in permanently restricted net assets	<u>401,032</u>	<u>41,446</u>
Change in Net Assets	15,291,074	2,952,006
Net Assets, Beginning of Year	<u>65,125,638</u>	<u>62,173,632</u>
Net Assets, End of Year	<u><u>\$ 80,416,712</u></u>	<u><u>\$ 65,125,638</u></u>

Hill Country Memorial Hospital

Consolidated Statements of Cash Flows

Years Ended December 31, 2013 and 2012

	2013	2012
Operating Activities		
Change in net assets	\$ 15,291,074	\$ 2,952,006
Items not requiring (providing) cash		
Loss on sale of property and equipment	3,028	44,969
Depreciation	4,246,471	4,352,141
Realized and unrealized gains on investments	(319,508)	-
Undistributed portion of change in interest in net assets of HCMH Foundation	(2,982,571)	(1,445,973)
Accrued self-insurance costs	(201,000)	(207,510)
Provision for uncollectible accounts	4,956,614	5,581,797
Changes in		
Patient accounts receivable, net	(6,053,333)	(5,832,059)
Estimated amounts due from and to third-party payers	(1,743,708)	1,594,076
Accounts payable and accrued expenses	1,856,602	934,970
Other assets and liabilities	(1,610,679)	27,525
Net cash provided by operating activities	<u>13,442,990</u>	<u>8,001,942</u>
Investing Activities		
Purchase of investments	(3,834,782)	-
Proceeds from disposition of investments	150,000	349
Purchase of option fee from Fredericksburg Hospital Authority	-	(5,500,000)
Purchase of interest in Hill Country Memorial Surgery Center	-	(400,000)
Proceeds from sale of property and equipment	4,500	7,051
Purchase of property and equipment	(5,128,372)	(2,946,945)
Net cash used in investing activities	<u>(8,808,654)</u>	<u>(8,839,545)</u>
Financing Activities		
Principal payments on financing obligation	(660,379)	-
Principal payments on long-term debt	(66,409)	(640,900)
Net cash used in financing activities	<u>(726,788)</u>	<u>(640,900)</u>
Increase (Decrease) in Cash and Cash Equivalents	<u>3,907,548</u>	<u>(1,478,503)</u>
Cash and Cash Equivalents, Beginning of Year	<u>17,288,005</u>	<u>18,766,508</u>
Cash and Cash Equivalents, End of Year	<u><u>\$ 21,195,553</u></u>	<u><u>\$ 17,288,005</u></u>
Supplemental Cash Flows Information		
Interest paid	\$ 307,147	\$ 431,309
Property and equipment additions included in accounts payable	\$ 274,551	\$ -
Note payable obtained through purchase of HCMSC	\$ -	\$ 152,847

Hill Country Memorial Hospital

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Nature of Operations

The consolidated financial statements of Hill Country Memorial Hospital (Hospital) include the accounts of the Hospital and its subsidiaries. Entities included in the consolidated financial statements of the Hospital are:

- Hill Country Memorial Hospital (Hospital or HCMH)
- Hill Country Primary Care Physicians (HPCP)
- Hill Country Physicians Associates (HCPA)
- Greater Hill Country Hospice (GHCH)
- Hill Country Memorial Surgery Center (HCMSC)

The Hospital operates a 77-bed acute care hospital and provides inpatient, outpatient and emergency care services to residents of Fredericksburg, Texas, Gillespie County and surrounding areas.

HPCP and HCPA are nonprofit corporations organized under 501(c)(3) of the Internal Revenue Code and were formed to encourage quality health care providers to locate in the areas served by the Hospital. The sole member of both organizations is the Hospital.

GHCH is a nonprofit corporation organized to provide hospice care to terminally ill patients in the Hospital's service area. The Hospital is the sole member of GHCH.

HCMSC is organized as a limited liability partnership and is a for-profit ambulatory surgery center located in Marble Falls, Texas. During 2012, the Hospital purchased a 51% interest in HCMSC. Noncontrolling interest in HCMSC is held by various physician investors.

Principles of Consolidation

The consolidated financial statements include the accounts of HCMH, HPCP, HCPA, GHCH and HCMSC. All significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Hill Country Memorial Hospital

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Noncontrolling Interest

Noncontrolling interest represents the 49% interest in HCMSC that the Hospital does not own. The Hospital purchased a majority interest in HCMSC in 2012. Losses attributable to the noncontrolling interest are allocated to the noncontrolling interest even if the carrying amount of the noncontrolling interest is reduced below zero.

For the years ended December 31, 2013 and 2012, changes in consolidated unrestricted net assets attributable to the controlling financial interest of the Hospital and the noncontrolling interest are

	Total	Controlling Interest	Noncontrolling Interest
Balance, January 1, 2012	\$ 45,570,565	\$ 45,570,565	\$ -
Excess (deficiency) of revenues over expenses	621,968	685,079	(63,111)
Purchase of interest in Hill Country Memorial Surgery Center	342,788	174,822	167,966
Net position released from restriction used for acquisition of property and equipment	<u>541,277</u>	<u>541,277</u>	<u>-</u>
Change in unrestricted net position	<u>1,506,033</u>	<u>1,401,178</u>	<u>104,855</u>
Balance, December 31, 2012	<u>47,076,598</u>	<u>46,971,743</u>	<u>104,855</u>
Excess (deficiency) of revenues over expenses	10,746,563	11,113,329	(366,766)
Net position released from restriction used for acquisition of property and equipment	<u>1,561,940</u>	<u>1,561,940</u>	<u>-</u>
Change in unrestricted net position	<u>12,308,503</u>	<u>12,675,269</u>	<u>(366,766)</u>
Balance, December 31, 2013	<u><u>\$ 59,385,101</u></u>	<u><u>\$ 59,647,012</u></u>	<u><u>\$ (261,911)</u></u>

The change in temporarily and permanently restricted net assets is attributable solely to the controlling interest.

Cash and Cash Equivalents

The Hospital considers all liquid investments with original maturities of three months or less to be cash equivalents. At December 31, 2013 and 2012, cash equivalents consisted primarily of a repurchase agreement with a bank and money market accounts with brokers.

At December 31, 2013, the Hospital's cash accounts exceeded federally insured limits by approximately \$628,000.

Hill Country Memorial Hospital

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Investments and Investment Return

Investments in equity securities having a readily determinable fair value and investments in all debt securities are carried at fair value. Other investments are valued at the lower of cost (or fair value at time of donation, if acquired by contribution) or fair value. Investment return includes dividend, interest and other investment income, realized and unrealized gains and losses on investments carried at fair value, and realized gains and losses on other investments.

Investment return that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in unrestricted net assets. Other investment return is reflected in the statements of operations and changes in net assets as unrestricted, temporarily restricted or permanently restricted based upon the existence and nature of any donor or legally imposed restrictions.

Assets Limited As To Use

Assets limited as to use includes assets set aside by the Board of Trustees under self-insurance trust agreements. Amounts required to meet current liabilities of the Hospital are included in current assets.

Patient Accounts Receivable

Accounts receivable are reduced by an allowance for doubtful accounts. In evaluating the collectibility of accounts receivable, the Hospital analyzes its past history and identifies trends for each of its major payer sources of revenue to estimate the appropriate allowance for doubtful accounts and provision for uncollectible accounts. Management regularly reviews data about these major payer sources of revenue in evaluating the sufficiency of the allowance for doubtful accounts.

For receivables associated with services provided to patients who have third-party coverage, the Hospital analyzes contractually due amounts and provides an allowance for doubtful accounts and a provision for uncollectible accounts, if necessary (for example, for expected uncollectible deductibles and copayments on accounts for which the third-party payer has not yet paid, or for payers who are known to be having financial difficulties that make the realization of amounts due unlikely).

For receivables associated with self-pay patients (which includes both patients without insurance and patients with deductible and copayment balances due for which third-party coverage exists for part of the bill), the Hospital records a significant provision for uncollectible accounts in the period of service on the basis of its past experience, which indicates that many patients are unable or unwilling to pay the portion of their bill for which they are financially responsible. The difference between the standard rates (or the discounted rates if negotiated or provided by policy) and the amounts actually collected after all reasonable collection efforts have been exhausted is charged off against the allowance for doubtful accounts.

Hill Country Memorial Hospital

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

The Hospital's allowance for uncollectible accounts for self-pay patients was approximately 92% and 95% of self-pay accounts receivable at December 31, 2013 and December 31, 2012, respectively. Patient write-offs increased from approximately \$3,195,000 in 2012 to approximately \$6,520,000 in 2013. The increase in write-offs is the result of negative trends experienced in collections of amounts from self-pay patients in 2013.

Supplies

The Hospital states supply inventories at the lower of cost, determined using the first-in, first-out method or market.

Property and Equipment

Property and equipment acquisitions are recorded at cost and are depreciated using the straight-line method over the estimated useful life of each asset. The estimated useful lives for each major depreciable classification of property and equipment are as follows:

Land improvements	3 – 20 years
Buildings and improvements	25 – 40 years
Equipment	3 – 20 years

Donations of property and equipment are reported at fair value as an increase in unrestricted net assets unless use of the assets is restricted by the donor. Monetary gifts that must be used to acquire property and equipment are reported as restricted support. The expiration of such restrictions is reported as an increase in unrestricted net assets when the donated asset is placed in service.

Long-lived Asset Impairment

The Hospital evaluates the recoverability of the carrying value of long-lived assets whenever events or circumstances indicate the carrying amount may not be recoverable. If a long-lived asset is tested for recoverability and the undiscounted estimate future cash flows expected to result from the use and eventual disposition of the asset is less than the carrying amount of the asset, the asset cost is adjusted to fair value and an impairment loss is recognized as the amount by which the carrying amount of a long-lived asset exceeds its fair value. No asset impairment was recognized during the years ended December 31, 2013 and 2012.

Interest in Net Assets of Hill Country Memorial Hospital Foundation

Hill Country Memorial Hospital Foundation (HCMH Foundation or Foundation) and the Hospital are financially interrelated organizations. The Foundation seeks private support for and holds net assets on behalf of the Hospital. The Hospital accounts for its interest in the net assets of the Foundation in a manner similar to the equity method. Changes in the interest in the Foundation are included in change in net assets. Transfers of assets between the Foundation and the Hospital are recognized as increases or decreases in the interest.

Hill Country Memorial Hospital

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Temporarily and Permanently Restricted Net Assets

Temporarily restricted net assets are those whose use by the Hospital has been limited by donors to a specific time period or purpose. Permanently restricted net assets has been restricted by donors to be maintained by the Hospital in perpetuity. At December 31, 2013 and 2012, temporarily and permanently restricted net assets is related to the Hospital's interest in the net assets of the Foundation.

Net Patient Service Revenue

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers and others for services rendered and includes estimated retroactive revenue adjustments. Retroactive adjustments are considered in the recognition of revenue on an estimated basis in the period the related services are rendered and such estimated amounts are revised in future periods as adjustments become known.

Charity Care

The Hospital provides care without charge or at amounts less than its established rates to patients meeting certain criteria under its charity care policy. Because the Hospital does not pursue collection of amounts determined to qualify as charity care, these amounts are not reported as net patient service revenue. The cost associated with the Hospital's charity care program were approximately \$2,407,000 and \$2,168,000 for 2013 and 2012, respectively. The cost of charity care is estimated by applying the overall ratio of the Hospital's cost to charges to the gross charges related to services provided to patients qualifying for the Hospital's charity care program.

Contributions

Gifts received with donor stipulations are reported as either temporarily or permanently restricted support. When a donor restriction expires, that is, when a time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified and reported as an increase in unrestricted net assets. Donor-restricted contributions whose restrictions are met within the same year as received are reported as unrestricted contributions. Conditional contributions are reported as liabilities until the condition is eliminated or the contributed assets are returned to the donor.

Professional Liability Claims

The Hospital recognizes an accrual for claim liabilities based on estimated ultimate losses and costs associated with settling claims and a receivable to reflect the estimated insurance recoveries, if any. Professional liability claims are described more fully in *Note 6*.

Hill Country Memorial Hospital

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Self-insurance

The Hospital has elected to partially self-insure certain costs related to employee health and accident benefit programs. Costs resulting from noninsured losses are charged to expense when incurred. The Hospital has purchased insurance that limits its annual exposure for individual claims to \$200,000.

Income Taxes

The Hospital and its wholly owned subsidiaries have been recognized as exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of state law. However, these entities are subject to federal income tax on any unrelated business taxable income. HCMSC is taxed as a partnership.

With few exceptions, the Hospital and its wholly owned subsidiaries are no longer subject to U.S. federal examinations by tax authorities for years before 2010.

Excess of Revenues Over Expenses

The consolidated statements of operations include excess of revenues over expenses. Changes in unrestricted net assets which are excluded from excess of revenues over expenses, consistent with industry practice, include contributions of long-lived assets (including assets acquired using contributions which by donor restriction were to be used for the purpose of acquiring such assets).

Transfers Between Fair Value Hierarchy Levels

Transfers in and out of Level 1 (quoted market prices), Level 2 (other significant observable inputs) and Level 3 (significant unobservable inputs) are recognized on the actual transfer date.

Electronic Health Records Incentive Program

The Electronic Health Records Incentive Program, enacted as part of the *American Recovery and Reinvestment Act of 2009*, provides for one-time incentive payments under both the Medicare and Medicaid programs to eligible hospitals that demonstrate meaningful use of certified electronic health records technology (EHR). Payments under the Medicare program are generally made for up to four years based on a statutory formula. Payments under the Medicaid program are generally made for up to four years based upon a statutory formula, as determined by the state, which is approved by the Centers for Medicare and Medicaid Services (CMS). Payment under both programs are contingent on the hospital continuing to meet escalating meaningful use criteria and any other specific requirements that are applicable for the reporting period. The final amount for any payment year is determined based upon an audit by the fiscal intermediary. Events could occur that would cause the final amounts to differ materially from the initial payments under the program.

Hill Country Memorial Hospital

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

The Hospital recognizes revenue under the grant accounting model using the cliff recognition approach. Under this approach, revenue is recognized once meaningful use status has been met for the full reporting period.

The Hospital attested to Stage 1 requirements under both the Medicare and Medicaid programs in 2013 and 2012 and has recorded revenue of approximately \$1,555,000 and \$1,995,000, for the years ending December 31, 2013 and 2012, respectively, which is included in other revenue within operating revenues in the accompanying consolidated statements of operations.

Subsequent Events

Subsequent events have been evaluated through the date of the Independent Auditor's Report, which is the date the consolidated financial statements were available to be issued.

Note 2: Net Patient Service Revenue

The Hospital recognizes patient service revenue associated with services provided to patients who have third-party payer coverage on the basis of contractual rates for the services rendered. For uninsured patients that do not qualify for charity care, the Hospital recognizes revenue on the basis of its standard rates for services provided. On the basis of historical experience, a significant portion of the Hospital's uninsured patients will be unable or unwilling to pay for the services provided. Thus, the Hospital records a significant provision for uncollectible accounts related to uninsured patients in the period the services are provided. This provision for uncollectible accounts is presented on the statement of operations as a component of net patient service revenue.

The Hospital has agreements with third-party payers that provide for payments to the Hospital at amounts different from its established rates. These payment arrangements include:

- **Medicare** – Inpatient acute care services and substantially all outpatient services rendered to Medicare 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. The Hospital is reimbursed for certain services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicare administrative contractor.
- **Medicaid** – Inpatient services rendered to Medicaid program beneficiaries are reimbursed under a prospective payment methodology. Outpatient and physician services are reimbursed under a mixture of cost reimbursement and fee schedule methods. The Hospital is reimbursed for cost reimbursable services at tentative rates with final settlement determined after submission of annual cost reports by the Hospital and audits thereof by the Medicaid administrative contractor.

Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation and change. As a result, it is reasonably possible that recorded estimates will change materially in the near term.

Hill Country Memorial Hospital

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

During 2012, the Hospital was notified by the CMS that the Hospital's status as a Sole Community Hospital (SCH) was being terminated. SCH status provides for a hospital specific payment rate for inpatient services if that rate, in aggregate, results in total payments greater than the prospective payment that would be paid under Medicare's normal payment methodology and a 7.1% add on to the prospective payment for outpatient services. The SCH status termination is retrospective to fiscal year 2007.

The impact of the lost SCH status for these fiscal years was approximately \$8,200,000, which has been recorded as a liability in the consolidated balance sheets.

Effective September 23, 2012, the Hospital was designated as a Medicare Dependent Hospital (MDH). MDH status provides for payments in addition to prospective payment rates to assist MDH designated hospitals with the cost of providing care to Medicare beneficiaries. This program is currently set to expire on March 31, 2015.

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

Patient service revenue, net of contractual allowances and discounts (but before the provision for uncollectible accounts), recognized in the years ended December 31, 2013 and 2012, respectively, was approximately:

	<u>2013</u>	<u>2012</u>
Medicare	\$ 31,732,987	\$ 32,258,468
Medicaid	4,527,280	3,955,339
Other third-party payers	39,644,257	31,818,376
Patients	<u>2,566,195</u>	<u>3,181,733</u>
	<u>\$ 78,470,719</u>	<u>\$ 71,213,916</u>

Supplemental Medicaid Funding Revenue

Prior to 2013, the Hospital participated in the state of Texas' private Medicaid Upper Payment Limit (UPL) program. Under the private UPL program, a governmental agency made intergovernmental transfers (IGT) on behalf of the Hospital. These transfers were used by the state of Texas Medicaid program to draw down federal funding for the Hospital based on its UPL gap, which is approximately equal to the difference in what Medicare would have paid for the Hospital's Medicaid charges and what Medicaid actually paid. Total UPL funds received during 2012 were approximately \$677,000.

Hill Country Memorial Hospital

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

On December 12, 2011, the United States Department of Health and Human Services approved a new Medicaid section 1115(a) demonstration entitled "Texas Health Transformation and Quality Improvement Program" (Waiver). The Waiver effectively replaced the UPL program. The Waiver expands existing Medicaid managed care programs and established two funding pools that assists providers with uncompensated care costs (UC Pool) and promotes health system transformation (DSRIP Pool). The Waiver is effective from December 12, 2011 to September 30, 2016. The revenue from the two funding pools is recognized as earned throughout the related demonstration year. Total revenue recognized from the UC Pool and DSRIP Pool was approximately \$12,620,000 for the year ended December 31, 2013. The Hospital did not recognize revenue from these programs in 2012 as the revenue was not determinable. Approximately \$3,600,000 of the revenue recognized in 2013 pertains to Waiver periods through December 31, 2012. At December 31, 2013, the Hospital had a receivable of approximately \$1,547,000 from these programs, which is included in prepaid expenses and other current assets in the accompanying consolidated balance sheets.

The funding is subject to recoupment based on future audits of these program and is not necessarily representative of funding the Hospital will receive in future years. The programs described above are subject to review and scrutiny by both the Texas Legislature and the CMS and the programs could be modified or terminated based on new legislation or regulation in future periods.

Note 3: Concentration of Credit Risk

The Hospital grants credit without collateral to its patients, most of whom are area residents and are insured under third-party payer agreements. The mix of net receivables from patients and third-party payers at December 31, 2013 and 2012, is

	2013	2012
Medicare	21 %	22 %
Medicaid	3	7
Other third-party payers	71	68
Patients	5	3
	100 %	100 %

Hill Country Memorial Hospital

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 4: Investments and Investment Return

Assets Limited as to Use

Assets limited as to use, at December 31 include

	2013	2012
Held by trustee for self-insurance		
Cash and cash equivalents	\$ 797,485	\$ 293,431
Certificate of deposit	-	500,000
	<u>\$ 797,485</u>	<u>\$ 793,431</u>

Long-term Investments

Long-term investments, at December 31 include

	2013	2012
Mutual funds	<u>\$ 4,000,237</u>	<u>\$ -</u>

The total investment return is comprised of the following

	2013	2012
Interest income	\$ 186,624	\$ 65,583
Realized and unrealized gains	319,508	-
	<u>\$ 506,132</u>	<u>\$ 65,583</u>

Note 5: Interest in Net Assets of Hill Country Memorial Hospital Foundation

The Foundation was established to solicit contributions principally to fund capital improvements of the Hospital. Funds are distributed to the Hospital as determined by the Foundation's Board of Directors. The Hospital's interest in the net assets of the Foundation is accounted for in a manner similar to the equity method. Changes in the interest are included in change in net assets. Transfers of assets between the Foundation and the Hospital are recognized as increases or decreases in the interest in the net assets of the Foundation with corresponding decreases or increases in the assets transferred and have no effect on change in net assets. The Hospital's interest in the net assets of the Foundation is reported in the consolidated balance sheets and was \$21,031,611 and \$18,049,040 at December 31, 2013 and 2012, respectively.

Hill Country Memorial Hospital

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

The Foundation's cash transfers to the Hospital for property and equipment additions during the years ended December 31, 2013 and 2012, were \$1,561,940 and \$541,277, respectively. During 2013 and 2012, the Foundation also contributed \$2,800 and \$222,088, respectively, to assist with Hospital operating costs. At December 31, 2013 and 2012, the Hospital was due approximately \$42,000 and \$198,000 from the Foundation which is included in the consolidated balance sheets as a component of prepaid expenses and other assets.

Note 6: Risk Management

The Hospital is partially self-insured for professional and general liability risks. The Hospital purchases commercial insurance coverage through a claims-made policy for individual claims and annual aggregate claims exceeding \$750,000 up to \$1,000,000 per claim and \$3,000,000 annually. The Hospital also purchases an umbrella policy for claims exceeding these insurance limits up to \$2,000,000 per claim and annually. Losses from asserted and unasserted claims identified under the Hospital's incident reporting system are accrued based on estimates that incorporate the Hospital's past experience, as well as other considerations, including the nature of each claim or incident and relevant trend factors. It is reasonably possible that the Hospital's estimate of losses will change by a material amount in the near term. The Hospital's estimate of losses is reflected in the consolidated balance sheets as estimated self-insurance costs.

The Hospital is also self-insured for employee health care claims. A provision is accrued for self-insured claims, including both claims reported and claims incurred but not yet reported. The accrual is estimated based on consideration of prior claims experience, recently settled claims, frequency of claims and other economic and social factors. It is reasonably possible that the Hospital's estimate will change by a material amount in the near term. The Hospital's estimate of losses is reflected in accrued expenses in the consolidated balance sheets.

Activity in the Hospital's self-insurance liabilities during 2013 is summarized as follows:

	Employee Health	Medical Malpractice
Balance, beginning of year	\$ 404,056	\$ 1,101,000
Current year claims incurred and changes in estimates for claims incurred in prior years	3,590,291	55,948
Claims and expenses paid	<u>(3,631,919)</u>	<u>(256,948)</u>
Balance, end of year	<u><u>\$ 362,428</u></u>	<u><u>\$ 900,000</u></u>

Hill Country Memorial Hospital

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Activity in the Hospital's self-insurance liabilities during 2012 is summarized as follows

	Employee Health	Medical Malpractice
Balance, beginning of year	\$ 378,577	\$ 1,308,510
Current year claims incurred and changes in estimates for claims incurred in prior years	3,351,711	46,150
Claims and expenses paid	<u>(3,326,232)</u>	<u>(253,660)</u>
Balance, end of year	<u><u>\$ 404,056</u></u>	<u><u>\$ 1,101,000</u></u>

Note 7: Functional Expenses

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

	2013	2012
Health care services	\$ 55,277,171	\$ 46,633,223
General and administrative	<u>24,386,270</u>	<u>23,456,784</u>
	<u><u>\$ 79,663,441</u></u>	<u><u>\$ 70,090,007</u></u>

Note 8: Pension Plan

The Hospital has a defined contribution pension plan covering substantially all employees. The Board annually determines the amount, if any, of the Hospital's contributions to the plan. Pension expense was approximately \$728,000 and \$682,000 for 2013 and 2012, respectively.

Note 9: 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 the designated activities. In the event the Hospital ceases to use the property for the designated purposes, the Hospital is required to repay the fair value of the property as of the time of the contribution, which 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

December 31, 2013 and 2012

Note 10: Sale Leaseback

On December 20, 2012, the Hospital entered into a transaction with Fredericksburg Hospital Authority (FHA) whereby FHA purchased the Hospital's land and facility (Property) and leased the Property back to the Hospital. FHA purchased the property for \$48,000,000 and is leasing the Property back to the Hospital at an annual lease rate of \$5,400,000 due in monthly installments of \$450,000. FHA secured the funding necessary to make the purchase through the issuance of the Senior Series 2012A Secured Mortgage Bonds (Series 2012A Bonds) and the Subordinate Series 2012B Secured Mortgage Taxable Bonds (Series 2012B Bonds). The Series 2012A Bonds, in the aggregate principal amount of \$8,000,000, were purchased by the financial institution that owned the Hospital's Series 2005 Bonds and Series 1999 Bonds and the proceeds were used to pay off the outstanding balance on those bonds. The Series 2012B Bonds, in the aggregate principal amount of \$40,000,000, were purchased by the Hospital.

The Series 2012A Bonds and Series 2012B Bonds are secured by the Property with the Series 2012A Bonds holding the senior interest in that security. The Series 2012B Bonds bear interest at an annual rate of 3.50%. Interest is payable to the Hospital monthly with unpaid interest and the aggregate principal balance due to the Hospital in one lump sum payment on December 15, 2042. In conjunction with this transaction, the Hospital paid FHA \$5,500,000 for the exclusive right to repurchase the Property at any point during the term of the lease for an amount equal to the outstanding balance on the Series 2012A and Series 2012B Bonds. This fee is reflected as a long-term asset in the consolidated balance sheets and is being amortized over the term of the lease.

The Hospital has accounted for this transaction in accordance with ASC Topic 840-40, *Sale-Leaseback Transactions* (Topic 840). Under Topic 840, the seller-lessee in a sale-leaseback transaction involving real estate is precluded from accounting for the transaction as a sale if there is any form of continuing involvement with the property, other than a normal leaseback. Based on the terms of this transaction, the Hospital has been determined to have continuing involvement and has not accounted for this transaction as a sale.

The Hospital continues to report the value of the Property, net of accumulated depreciation, in the consolidated balance sheets and continues to depreciate the Property. Proceeds from the sale are recognized as a financing liability as received and the financing liability is amortized to expense over the term of the lease agreement. At December 31, 2013 and 2012, the Hospital had a financing liability associated with this transaction of \$7,339,621 and \$8,000,000, respectively.

Hill Country Memorial Hospital

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Note 11: Related Party Transactions

The Hospital was party to an indigent care affiliation agreement with the City of Seguin and Guadalupe County, Texas d/b/a Guadalupe Regional Medical Center and Kimball County Hospital District to collaborate with the Healthcare Partnership of Greater San Antonio (Service Organization), a nonprofit corporation, to access Medicaid supplemental payments through the state of Texas private UPL program. Members of the Hospital's management team served on the Board of the Service Organization. The Hospital withdrew its membership in the Service Organization during 2013 and made no contributions to the Service Organization during 2013. The Hospital contributed approximately \$480,000 to the Service Organization in 2012. The related expense is reflected as a component of supplies and other expense in the consolidated statements of operations.

From time to time, the Hospital conducts business transactions with companies that members of the Board have a direct or indirect relationship. These relationships and transactions are disclosed by the Board members in annual conflict of interest statements. Certain of these transactions are also disclosed in the Hospital's annual IRS Form 990, in accordance with applicable disclosure requirements.

Note 12: Disclosures About Fair Value of Assets and Liabilities

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

Hill Country Memorial Hospital

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Recurring Measurements

The Hospital's investments and cash equivalents are the only assets measured at fair value on a recurring basis. At December 31, 2013 and 2012, the Hospital's investments and cash equivalents consisted entirely of money market mutual funds and mutual funds.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy. In certain cases where Level 1 or Level 2 inputs are not available, securities are classified within Level 3 of the hierarchy.

All of the Hospital's investments and cash equivalents were classified as Level 1 securities at both December 31, 2013 and 2012.

Fair Value of Financial Instruments

The following table presents estimated fair values of the Hospital's financial instruments and the level within the fair value hierarchy in which the fair value measurements fall at December 31, 2013 and 2012.

	2013		2012	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial assets				
Cash and cash equivalents	\$ 21,195,553	\$ 21,195,553	\$ 17,288,005	\$ 17,288,005
Interest in net assets of				
Hill Country Memorial Foundation	21,031,611	21,031,611	18,049,040	18,049,040
Purchase option	5,316,664	5,316,664	5,500,000	5,500,000
Financial liabilities				
Long-term debt	66,626	66,626	133,035	133,035
Financing obligation	7,339,621	7,339,621	8,000,000	8,000,000

The following methods were used to estimate the fair value of all other financial instruments recognized in the accompanying consolidated balance sheets at amounts other than fair value:

Cash and Cash Equivalents

The carrying amount approximates fair value.

Hill Country Memorial Hospital
Notes to Consolidated Financial Statements
December 31, 2013 and 2012

Interest in Net Assets of HCM Foundation

The carrying amount approximates fair value

Purchase Option

The carrying amount approximates fair value

Long-term Debt and Financing Obligation

Fair value is estimated based on the borrowing rates currently available to the Hospital for bank loans with similar terms and maturities and determined through the use of a discounted cash flow model

Note 13: Significant Estimates and Concentrations

Accounting principles generally accepted in the United States of America require disclosure of certain significant estimates and current vulnerabilities due to certain concentrations. Those matters include the following:

Allowance for Net Patient Service Revenue Adjustments

Estimates of allowances for adjustments included in net patient service revenue are described in *Notes 1 and 2*

Medical Malpractice Claims

Estimates related to the accrual for medical malpractice claims are described in *Notes 1 and 6*

Litigation

In the normal course of business, the Hospital is, from time to time, subject to allegations that may or do result in litigation. Some of these allegations are in areas not covered by the Hospital's self-insurance program (discussed elsewhere in these notes) or by commercial insurance, for example, allegations regarding employment practices or performance of contracts. The Hospital evaluates such allegations by conducting investigations to determine the validity of each potential claim. Based upon the advice of counsel, management records an estimate of the amount of ultimate expected loss, if any, for each of these matters. Events could occur that would cause the estimate of ultimate loss to differ materially in the near term.

Hill Country Memorial Hospital

Notes to Consolidated Financial Statements

December 31, 2013 and 2012

Investments

The Hospital invests in various investment securities. Investment securities are exposed to various risks such as interest rate, market and credit risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the amounts reported in the accompanying consolidated balance sheets.

Health Care Reform

The *Patient Protection and Affordable Care Act* (PPACA) will substantially reform the United States health care system. The legislation impacts multiple aspects of the health care system, including many provisions that change payments from Medicare, Medicaid and insurance companies. Starting in 2014, the legislation requires the establishment of health insurance exchanges, which will provide individuals without employer provided health care coverage the opportunity to purchase insurance. It is possible that some employers currently offering insurance to employees will opt to have employees seek insurance coverage through the insurance exchanges.

The reimbursement rates paid by insurers participating in the insurance exchanges may be substantially different than rates paid under current health insurance products. Another significant component of the PPACA is the expansion of the Medicaid program to a wide range of newly eligible individuals. In anticipation of this expansion, payments under certain existing programs, such as Medicare disproportionate share, will be substantially decreased. Each state's participation in an expanded Medicaid program is optional.

The state of Texas has indicated it will not expand the Medicaid program, which may result in revenues from newly covered individuals not offsetting the Hospital's reduced revenue from other Medicare/Medicaid programs.

The PPACA is extremely complex and may be difficult for the federal government and each state to implement. While the overall impact of the PPACA cannot currently be estimated, it is reasonably possible that it will have a negative impact on the Hospital's net patient service revenue. In addition, it is possible the Hospital will experience payment delays and other operational challenges during PPACA's implementation.