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REPORT OF EXAMINATION

MEMORIAL HOSPITAL - LUFKIN, TEXAS

December 31, 1950

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AXLEY & RODE
CERTIFIED PUBLIC ACCOUNTANTS
LUFKIN, TEXAS

January 19, 1951

Board of Directors
Memorial Hospital
Lufkin, Texas

We have examined the statement of financial condition of the Memorial Hospital, Lufkin, Texas as of December 31, 1950 and the related statement of income for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

BRIEF HISTORY

The Memorial Hospital was organized "to establish and operate a charitable, benevolent, and non-profit hospital for its members" and was granted a charter for this purpose on December 12, 1944 by the State of Texas for fifty years. The charter provides that the Hospital shall have no capital stock and shall not be operated for profit. The charter further provides that the Hospital shall be supported by donations, devises and bequests, and "from such fees as may be collected by it for services rendered to patients whose financial condition enables them to pay therefor." A list of the contributions to the Hospital by donors is included in this report.

The Hospital was officially opened on May 12, 1949 and 3,904 patients had been admitted to the hospital between that date and December 31, 1950. Modern hospital facilities and medical care have been provided at reasonable rates for those patients who were financially able to pay for them and additional hospital services valued at $6,184.53 were provided without charge for those who, in the opinion of the management, were unable to pay.

On October 30, 1950 the charter of the Hospital was amended to read "The purpose for which it is formed is to maintain and operate a charitable, benevolent, and non-profit hospital."

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FINANCIAL CONDITION AND OPERATIONS

The Hospital's first full year of operations has been very successful from a financial standpoint. Hospital revenues in excess of cash requirements for operating expenses have provided cash in excess of current requirements for maturing obligations. Contributions to the sinking fund by the participating companies have exceeded the amount required for interest and debt retirement to such an extent that $15,000.00 has been invested in U. S. Government Bonds.

The cost of operating the hospital has been reduced from $23.29 per patient day in 1949 to $16.35 per patient day in 1950. This reduction in average cost appears to have been achieved by more efficient utilization of personnel and facilities as a result of the increased number of patients.

COMMENTS RELATING TO ASSETS AND LIABILITIES

CASH ON DEPOSIT - $65,075.28

Cash funds on deposit in the interest and sinking fund account were accumulated as a result of the following transactions:

Contributions by participating companies		117 312.43
Interest received on U. S. Government Bonds		187.50
		117 499.93
Less:		
Interest paid to holders of First Lien notes	26 941.81	
Notes numbers 1 to 30 inclusive, retired June 30, 1950	30 000.00	
U. S. Government Bonds purchased	15 000.00	71 941.81
Balance on deposit December 31, 1950		45 558.12

ACCOUNTS RECEIVABLE - $18,510.95

Statements mailed to parties responsible for payment of patients' accounts at December 31, 1950, were stamped with the request that we be notified of any differences. Only minor differences have been reported to us at the date of this report.

Amounts due on patient's accounts at December 31, 1950, are summarized as to date of discharge as follows:

In-patients (patients still in hospital)	2 290.70
Patients discharged during:	
December, 1950	5 921.73
November, 1950	3 254.16
October, 1950	3 528.43
Prior to October, 1950	3 180.72
TOTAL PATIENTS ACCOUNTS DECEMBER 31, 1950	18 175.74

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INVENTORIES - $24,865.74

A perpetual inventory record of supplies and materials in the storeroom is maintained by the hospital. Our examination included tests of the quantities of these materials. Prices used on these inventory records were compared with recent invoices on file. In our opinion the inventories are stated at cost and do not exceed current market prices for these supplies and materials.

The inventory amounts stated for food, laboratory supplies, X-ray films and supplies, office supplies and stationery, maintenance materials, and drugs represent the quantities issued to the various departments by the storeroom at the opening of the hospital. All subsequent requisitions were considered as replacements of these quantities and were, therefore, charged to expense.

LAND AND BUILDING - $698,038

Land and buildings are stated at the original cost to the Hospital less depreciation on the building based on an estimated useful life of 50 years.

EQUIPMENT - $143,617.80

A schedule of the various equipment accounts, together with additions during the period under review and related depreciation accounts is included herein. Depreciation of all equipment is based on an estimated useful life of 10 years.

ACCOUNTS PAYABLE - $15,286.52

All trade accounts recorded as unpaid at December 31, 1950 were paid by checks issued during the early part of January, 1951. No further unpaid accounts were disclosed by our examination.

ACCRUED INTEREST - $8,400.00

The regular semi-annual interest payment on the First Lien Notes was due and payable from the interest and sinking fund at January 1, 1951.

FIRST LIEN NOTES PAYABLE - $420,000.00

The First Lien Notes are secured by a lien on all property of the hospital and bear interest at the rate of 4% per annum. A schedule of maturities and holders of these notes is included in this report. The notes are to be retired by payments from the Interest and Sinking Fund which is being accumulated by regular monthly contributions from the participating companies.

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OPINION

In our opinion, the accompanying statement of financial condition and statement of income present fairly the position of Memorial Hospital, Lufkin, Texas at December 31, 1950, and the results of its operations for the year then ended in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

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STATEMENT OF FINANCIAL CON
MEMORIAL HOSPITAL - LUFKIN,
December 31, 1950

ASSETS

CURRENT ASSETS:			
Cash on deposit:			
Lufkin National Bank - General account		19 517.16	
Lufkin National Bank - Interest and sinking fund account		45 558.12	65 075.28
U. S. Government bonds - Series G - Bought from interest and sinking fund - at cost			15 000.00
Office cash funds			200.00
Accounts receivable:			
From patients		18 175.74	
From employee		335.21	18 510.95
Inventories:			
Supplies and materials in storeroom		16 903.41	
Food		696.47	
Laboratory supplies		1 974.33	
X-ray films and supplies		66.40	
Office supplies and stationery		823.56	
Maintenance materials for building		1 910.64	
Drugs		2 490.93	24 865.74
Unexpired insurance			1 346.62
TOTAL CURRENT ASSETS			124 998.59
PROPERTY AND EQUIPMENT - at cost - Note A:			
Land		3 900.00	
Building	717 454.20		
Less provision for depreciation	23 317.20	694 137.00	
Equipment - as shown by schedule following	165 297.93		
Less provision for depreciation	21 680.13	143 617.80	841 654.80
OTHER ASSETS:			
Organization expense			2 066.30
TOTAL ASSETS			968 719.69

Note A - All property of the Hospital is pledged to secure First Lien Notes.

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STATEMENT OF FINANCIAL CONDITION
EMORIAL HOSPITAL - LUFKIN, TEXAS
December 31, 1950

LIABILITIES AND CAPITAL

	CURRENT LIABILITIES:		
	Accounts payable		15 286.52
	Employees' withholding tax		1 875.39
	Accrued interest on First Lien Notes payable		8 400.00
65 075.28	First lien notes payable - maturing within one year		30 000.00
			55 561.91
15 000.00			
200.00	**LONG TERM LIABILITIES:**		
	First Lien Notes payable - Note A	420 000.00	
	Less amount maturing within one year		
18 510.95	shown as current liability above	30 000.00	390 000.00
	CAPITAL:		
	Contributed capital - as shown by schedule following:		
	Initial contributions by participating companies	452 675.00	
	Special assessments on participating companies	34 071.80	
24 865.74	Monthly contributions by participating		
1 346.62	companies	117 312.43	
124 998.59	Special memorial contributions	30 773.29	
		634 832.52	
	Less:		
	Loss incurred prior to December 31, 1949	75 890.35	
	Net loss for the year ended December 31, 1950	35 784.39	111 674.74	523 157.78
841 654.80			
2 066.30			
968 719.69	TOTAL LIABILITIES AND CAPITAL		968 719.69

rst Lien Notes.

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STATEMENT OF INCOME
MEMORIAL HOSPITAL - LUFKIN, TEXAS
For the year ended December 31, 1950

HOSPITAL REVENUE:			
Private room patients		51 557.60	
Semi-private room patients		25 116.25	
Ward patients		29 163.90	105 837.75
Operating room			15 605.96
Delivery room			3 955.50
Nursing			1 621.20
X-ray service			20 824.00
Laboratories			28 321.95
Pharmacy			40 029.06
Anesthesia			13 934.00
Central service			13 041.80
Emergency room			1 700.00
Cafeteria			7 757.50
Unclassified			444.94
GROSS REVENUE			253 073.66
Less:			
Discounts and allowances		9 263.37	
Charity patients		4 450.99	13 714.36
NET REVENUE			239 359.30
OPERATING EXPENSES (as shown by schedule following)			227 481.02
NET OPERATING PROFIT - Before depreciation and interest			11 878.28
OTHER EXPENSES:			
Interest		17 212.50	
Depreciation:			
On buildings	14 475.55		
On fixtures and equipment	13 429.43	27 904.98	
Loss on bad debts		3 098.42	48 215.90
			36 337.62
OTHER INCOME - Discounts earned			553.23
NET LOSS			35 784.39

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OPERATING EXPENSES
MEMORIAL HOSPITAL - LUFKIN, TEXAS
For the year ended December 31, 1950

DEPARTMENT	SALARIES	SUPPLIES	OTHER EXPENSES DESCRIPTION	OTHER EXPENSES AMOUNT	TOTAL EXPENSES
General Administration	7 461.91	478.10	Administrative Insurance Unclassified	1 927.51 2 119.75 1 146.02	13 133.29
Accounting	3 342.27	1 126.39	Unclassified	12.50	4 481.16
Admitting	575.00	2.70			577.70
Communications	3 346.60		Telephone	1 807.32	5 153.92
Dietary	12 339.59	1 048.05	Food	19 616.49	33 004.13
Housekeeping	9 343.93	2 702.06	Laundry and linen	3 161.67	15 207.66
Plant operation and maintenance	8 102.80	3 788.71	Utilities Unclassified	7 096.62 601.00	19 589.13
Anesthesia	6 830.77	1 980.87			8 811.64
Nursing service	53 133.25	1 686.42			54 819.67
Medical records	3 304.60	292.23			3 596.83
X-ray department	7 362.42	2 213.46			9 575.88
Laboratories	7 348.66	1 290.64	Pathological service	3 355.00	11 994.30
Operating room	8 095.01	4 947.98			13 042.99
Delivery room	2 860.00	622.35			3 482.35
Pharmacy	4 766.35	16 446.71			21 213.06
Central service	2 485.71	7 311.60			9 797.31
	140 698.87	45 938.27		40 843.88	227 481.02

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HOSPITAL EQUIPMENT

MEMORIAL HOSPITAL - LUFKIN, T

For the period from May 31, 1950 to Dec

	HOSPITAL EQUIPMENT			
	BALANCE MAY 31, 1950	ADDITIONS DURING THE PERIOD	BALANCE DEC. 31, 1950	B MAY
Administrative equipment	11 719.22	724.14	12 443.36	1
Dietary equipment (fixtures)	20 787.32	-0-	20 787.32	2
Housekeeping equipment	35 847.14	1 847.94	37 695.08	3
Pharmacy equipment	439.00	-0-	439.00	
Maintenance and repair equipment	780.02	-0-	780.02	
Medical and surgical equipment (fixtures)	40 109.43	901.75	41 011.18	4
X-ray equipment	18 926.86	3 768.75	22 695.61	1
Laboratory and other scientific equipment	4 849.22	-0-	4 849.22	
Dietary equipment (smaller items)	4 531.72	-0-	4 531.72	
Medical and surgical equipment (smaller items)	13 797.16	-0-	13 797.16	
Linens, gowns, and uniforms	6 268.26	-0-	6 268.26	
	158 055.35	7 242.58	165 297.93	13

Note A - No depreciation has been provided for the smaller items of dietary equ gowns, and uniforms because these items are worn out and replaced at a charged directly to expense when purchased.

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HOSPITAL EQUIPMENT

EMORIAL HOSPITAL - LUFKIN, TEXAS
riod from May 31, 1950 to December 31, 1950

L EQUIPMENT DITIONS NG THE ERIOD	BALANCE DEC. 31, 1950	DEPRECIATION RESERVE BALANCE MAY 31, 1950	DEPRECIATION 7 MONTHS	BALANCE DEC. 31, 1950	NET VALUE DEC. 31, 1950
724.14	12 443.36	1 207.22	671.98	1 879.20	10 564.16
-0-	20 787.32	2 165.85	1 212.52	3 378.37	17 408.95
847.94	37 695.08	3 714.17	2 167.50	5 881.67	31 813.41
-0-	439.00	45.73	25.61	71.34	367.66
-0-	780.02	81.25	45.50	126.75	653.27
901.75	41 011.18	4 102.70	2 378.55	6 481.25	34 529.93
768.75	22 695.61	1 969.48	1 104.07	3 073.55	19 622.06
-0-	4 849.22	505.13	282.87	788.00	4 061.22
-0-	4 531.72	-0-	(Note A)	-0-	4 531.72
-0-	13 797.16	-0-	(Note A)	-0-	13 797.16
-0-	6 268.26	-0-	(Note A)	-0-	6 268.26
42.58	165 297.93	13 791.53	7 888.60	21 680.13	143 617.80

smaller items of dietary equipment, medical and surgical equipment, linens,
re worn out and replaced at a comparatively rapid rate and replacements are
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FIRST LIEN NOTES
MEMORIAL HOSPITAL - LUFKIN, TEXAS
December 31, 1950

NOTE NUMBERS	AMOUNT	MATURITY DATE	INTEREST PAID TO
31 to 60, Incl.	30 000.00	July 1, 1951	June 30, 1950
61 to 90, Incl.	30 000.00	July 1, 1952	June 30, 1950
91 to 120, Incl.	30 000.00	July 1, 1953	June 30, 1950
121 to 150, Incl.	30 000.00	July 1, 1954	June 30, 1950
151 to 180, Incl.	30 000.00	July 1, 1955	June 30, 1950
181 to 210, Incl.	30 000.00	July 1, 1956	June 30, 1950
211 to 240, Incl.	30 000.00	July 1, 1957	June 30, 1950
241 to 270, Incl.	30 000.00	July 1, 1958	June 30, 1950
271 to 300, Incl.	30 000.00	July 1, 1959	June 30, 1950
301 to 330, Incl.	30 000.00	July 1, 1960	June 30, 1950
331 to 360, Incl.	30 000.00	July 1, 1961	June 30, 1950
361 to 405, Incl.	45 000.00	July 1, 1962	June 30, 1950
406 to 450, Incl.	45 000.00	July 1, 1963	June 30, 1950
	420 000.00		

Note - The above notes are held by the following:

HOLDER	AMOUNT
Angelina Casualty Company	20 000.00
Angelina County Lumber Company	58 000.00
A. & N. R. Railroad Company	8 000.00
East Texas Theaters, Inc.	7 000.00
Lufkin Foundry & Machine Company	125 000.00
Lufkin National Bank	19 000.00
Perkins-Goodwin Company	1 000.00
Perry Brothers, Inc.	8 000.00
Southern Pine Lumber Company	84 000.00
Southland Paper Mills, Inc.	90 000.00
	420 000.00

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CONTRIBUTED CAPITAL
MEMORIAL HOSPITAL - LUFKIN, TEXAS
December 31, 1950

INITIAL CONTRIBUTIONS BY PARTICIPATING COMPANIES		
Angelina Casualty Company	500.00	
Angelina County Lumber Company	57 750.00	
Angelina Chevrolet Company	3 500.00	
Angelina Hardwood Sales Company	7 500.00	
A. & N. R. Railroad Company	7 625.00	
East Texas Theaters, Inc.	7 000.00	
Lufkin Foundry & Machine Company	125 000.00	
Perkins-Goodwin Company	750.00	
Perry Brothers, Inc.	8 000.00	
Southland Paper Mills, Inc.	89 375.00	
Southern Pine Lumber Company	83 625.00	
Temple Lumber Company	2 300.00	
Texas Foundries, Inc.	53 500.00	
Texas Power & Light Company	6 250.00	452 675.00
SPECIAL ASSESSMENTS ON PARTICIPATING COMPANIES		
Angelina Casualty Company	40.00	
Angelina County Lumber Company	4 650.00	
Angelina Chevrolet Company	270.00	
Angelina Hardwood Sales Company	600.00	
A. & N. R. Railroad Company	510.00	
East Texas Theaters, Inc.	690.00	
Lufkin Foundry & Machine Company	7 780.00	
Perkins-Goodwin Company	70.00	
Perry Brothers, Inc.	901.80	
Southland Paper Mills, Inc.	7 880.00	
Southern Pine Lumber Company	6 950.00	
Temple Lumber Company	140.00	
Texas Foundries, Inc.	3 090.00	
Texas Power & Light Company	500.00	34 071.80
MONTHLY CONTRIBUTIONS BY PARTICIPATING COMPANIES		
Angelina Casualty Company	133.60	
Angelina Chevrolet Company	956.91	
Angelina County Lumber Company	15 307.22	
Angelina Hardwood Sales Company	2 004.00	
Angelina & Neches River Railroad Company	1 554.77	
East Texas Theaters, Inc. (to December 31, 1949)	943.55	
Lufkin Foundry & Machine Company	27 994.11	
Perkins-Goodwin Company	232.13	
Perry Brothers, Inc.	1 803.60	
Southern Pine Lumber Company	23 804.18	
Southland Paper Mills, Inc.	27 980.85	
Temple Lumber Company	445.89	
Texas & South-Eastern Railroad	681.40	
Texas Foundries, Inc.	11 878.71	
Texas Power & Light Company	1 591.51	117 312.43
SPECIAL CONTRIBUTIONS - MEMORIALS		30 773.29
TOTAL CONTRIBUTED CAPITAL		634 832.52

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INSURANCE
MEMORIAL HOSPITAL - LUFKIN, TEXAS
December 30, 1950

	AMOUNT OR LIMIT
FIRE, LIGHTNING, AND EXTENDED COVERAGE:	
Hospital building	570 000.00
Contents	121 500.00
FIDELITY BOND:	
Employee dishonesty - Each employee	10 000.00
Employee dishonesty - Administrator	15 000.00
WORKMENS COMPENSATION	Statutory
HOSPITAL LIABILITY	15/45 000.00
COMPREHENSIVE LIABILITY:	
Bodily injury	25/50 000.00
Property damage	5 000.00
BOILER EXPLOSION	100 000.00
ROBBERY AND SAFE BURGLARY:	
Messenger	2 000.00
Custodian	2 000.00
Safe burglary	2 000.00