



Charting Our Course
TO THE FUTURE



TEXAS ORGANIZATION *of* RURAL & COMMUNITY HOSPITALS
The 2007 Annual Report and Strategic Plan

Charting our course
TO THE FUTURE





BOARD OF *Directors*



TORCH 2007 BOARD OF DIRECTORS

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Chairman
Steve Gularte* (*El Campo*) –
Vice Chairman
Nancy Kinkler* (*Kenedy*) –
Secretary-Treasurer
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Randall Young* (*Weatherford*)

**Executive Committee*



Jim Buckner

Steve Gularte

Nancy Kinkler

TORCH MANAGEMENT SERVICES, INC. 2007 BOARD OF DIRECTORS

Randall Young (*Weatherford*) –
Chair
James Vanek (*Hallettsville*) –
Vice Chair
Clarence Fields (*Clifton*) – Secretary

Ray Mason (*Muleshoe*)
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Steve Summers (*Decatur*)
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Randall Young

THE TORCH FOUNDATION 2007 BOARD OF DIRECTORS

James Vanek (*Hallettsville*) – Chairman
Bob Elizzey (*Kilgore*) – Vice Chairman
Lynn Heller (*Muenster*) –
Secretary-Treasurer

Tom Crow (*Atlanta*)
Mike Click (*Brownfield*)



James Vanek

Charting Our Course

TO THE FUTURE



David Pearson

AS TORCH MOVES deeply into its second decade of service to rural hospitals in Texas, we take aim at challenges both old and new. To a large degree, the struggle for rural hospitals has been to survive the rigors of increasing costs and decreasing reimbursements. As we look toward the future, we see the added challenges of bringing new information technology into the rural landscape, dealing with a growing number of retirees and uninsured residents, and functioning under a national health care system that many agree is broken.

This year, for the first time, representatives of the TORCH board of directors, and the boards of our affiliate organizations, TMSI and the TORCH Foundation, met jointly to see how we could work more effectively together to address these challenges. The result is the 2007-2009 Strategic Plan that is outlined in this report.

We believe that in this time of change, our new strategies will allow us to signifi-

cantly enhance TORCH and its capacity to serve its members. Working as a more integrated organization, we envision the development of new services that will benefit rural hospitals, embracing everything from staff education to the funding of technological improvements. Meanwhile, we will remain the only clear voice that speaks for just rural hospitals in Texas. We also believe that TORCH takes a place on the national stage, serving both as a model of rural hospital organization and an effective voice in our nation's capitol for rural health care here and elsewhere.

Although we have adopted a new strategic plan, and have new staffing in place, our focus will be where it has always been – representing rural and small hospitals. It is our privilege to do so.

Sincerely,

A handwritten signature in dark ink that reads "David Pearson".

David Pearson
President & CEO



We want TORCH to have the resources to focus on the things rural hospitals need today for tomorrow.

Our services have evolved out of our commitment to the survival of rural and small community hospitals.



We will remain the only clear voice that speaks for just rural hospitals in Texas.

We believe that in this time of change, our new strategies will allow us to significantly enhance TORCH and its capacity to serve its members.



TORCH has become successful by responding to the needs of its members.



Our VISION, MISSION *and* VALUES

OUR VISION

Rural Texas has access to the highest quality health care.

OUR MISSION

To be the voice and principal advocate for rural and community hospitals in Texas, and to provide leadership in addressing the special needs and issues of these hospitals.

OUR VALUES

- Our members will always receive the best customer service.
- The services we provide will always be aligned with our mission.
- Data will always be used as the basis for improving outcomes and setting policy.
- Open dialogue and forward thinking is always expected among our staff and partners.
- We will always strive to be flexible, maintain growth, and be prepared for changes.
- We will always be building strategic relationships that enhance our effectiveness.



Our Strategic Plan:

2007-2009

For the first time, the TORCH strategic planning process encompasses our two subsidiary organizations – TORCH Management Services, Inc. (TMSI), and the TORCH Foundation.

“This reflects the maturation of our organization,” explained TORCH Board Chairman Jim Buckner, CEO of Uvalde Memorial Hospital in Uvalde, Texas. “We are representing rural hospitals more effectively than any other association in Texas, and our success has led to greater expectations.”


The new plan dovetails the missions of TORCH, TMSI and the Foundation, and calls for strengthening staffing and relationships, Buckner said. It is also an outgrowth of the new staff leadership in each organization.

“We want to have the resources to focus on the things rural hospitals need today for tomorrow,” he declared.

Buckner lists among the top priorities:

- Continuing advocacy for rural hospital needs, such as funding and the uninsured
- Leadership in information technologies
- Interim management and recruitment support
- Further development of the TORCH Leadership & Management Institute

The strategic plan is built around a series of eight strategic initiatives, each of which is accompanied by specific goals and objectives. All are designed to strengthen our organization and our commitment to honor our member-driven heritage. The initiatives are summarized in the following pages.



“We want to have the resources to focus on the things rural hospitals need today for tomorrow.”

TORCH Board Chairman, Jim Buckner

2007-2009 *Strategic Initiatives*

A **DVOCACY**
Be the principal advocacy leader for rural and community hospitals at the state and national level.

TORCH has earned credibility as the voice for rural hospitals in Texas. It is dedicated to using this strength to become even more influential in state and federal actions that impact rural health care.

Jan Reed, CEO of Electra Memorial Hospital, in Electra:

"This directive is of tremendous value. We need to get our voice heard in Washington, DC, and interact with rural hospitals throughout the nation."

PUBLIC RELATIONS
Achieve high public visibility and recognition for TORCH, its affiliates and its members.

TORCH was created because rural hospitals in Texas were being neglected and overshadowed. Our success has come in large measure because we have brought rural hospitals to the tables where health care policies and legislation are being created.

“What we do is important. No rural community can hope to thrive and grow without a dynamic, effective community hospital.”

John Henderson, CEO of Childress Regional Medical Center, in Childress, TX



*Advocacy and
Public Relations*

2007-2009

Strategic Initiatives

(continued)

COMMUNICATIONS

Optimize the members' awareness of the value, benefit and programs of TORCH, TORCH Management Services, and the TORCH Foundation.

Aside from its success in advocacy, TORCH has filled a vital role for rural hospitals by providing a wide variety of services. Many of these services are crucial to smaller hospitals, which do not have specialized staffing and resources to help them deal with issues that go beyond daily operations.

RESEARCH

Become the collective 'knowledge center' for information and data analysis to support effective hospital advocacy and operations.

TORCH has taken leadership in assembling and analyzing data for its member hospitals, as well as using that data effectively in its advocacy. During the 80th Texas State Legislative Session, for example, every legislator and his or her staff was provided with a data source for rural hospitals, including demographic information, hospital facts, rural challenges, the economic and social impact of rural hospitals in their communities, and other data. It was designed as a base document to help them understand rural hospitals and their issues.

Nancy Kinkler, CEO of Otto Kaiser Memorial Hospital, in Kenedy: "So much of what we do is based on the data we get from TORCH. We are more effective because of it, and if it weren't for TORCH, I don't know if we would have had it available to us."

"The number one service for us has been the annual conference for rural hospitals. Along with the value of networking, without this conference a lot of the business partners we've used would not have been found."

Robert Thomas, CEO of Columbus Community Hospital, in Columbus, TX

*Communications
and Research*



2007-2009 *Strategic Initiatives* (continued)

MEMBERSHIP SERVICES

Build a comprehensive set of quality services that deliver value and address member needs.

The Board of TORCH recognizes this as the most fundamental area to be developed, and maintaining a diverse set of programs and services is one of our highest priorities.

TORCH will be seeking ways to expand and improve its services, ranging from advocacy efforts and educational resources to new programs. Throughout its history, TORCH has been member focused, dedicated to delivering value.

Robert Thomas, CEO of Columbus Community Hospital, in Columbus:

"I think the Foundation is our future. By integrating its services, the TORCH organization can help us develop the funding and expertise we'll need when we're mandated to develop information technology. If we can find economies of scale, that's a huge value."

MEMBERSHIP RECRUITMENT

Maximize the membership base in all categories and place greater emphasis on member retention.

TORCH started with almost 100 members, and has grown to over 300, including hospitals, corporate and associate members. Continued growth and retention will be vital in order to insure the support that will be needed to meet the advocacy, technological and educational goals of the future.

"We need to have an organization like TORCH out there fighting for us. The more we can join together in this effort, the better our chance to deliver effective health care in our rural areas."

Steve Gularte, CEO of El Campo Memorial Hospital, El Campo, TX



2007-2009

Strategic Initiatives

(continued)

RESOURCES

Invest adequate resources in TORCH Management Services and the TORCH Foundation to ensure their ability to fully support the mission of TORCH.

The demands of the future require thoughtful stewardship of current income sources, as well as development of new streams, through non-dues revenue, and better returns on investments.

ADMINISTRATION

Establish a well coordinated organizational structure among TORCH, TMSI and the TORCH Foundation.

In a maturing organization with new administrative leadership, new linkage of the TORCH, TMSI and the Foundation boards, and a new strategic plan, it is appropriate to retool and marshal all of our forces to meet the special needs of rural hospitals in the next decade. TORCH has become a successful organization by responding to the needs of its members, and the demands of modern health care in small communities.

Jan Reed, CEO of Electra Memorial Hospital, in Electra:

"It's strategically a good time to make this move. We have a wonderful opportunity to come up with ways to prove to the world the quality of small hospitals. We really need to have an organization with adequate staffing and resources to do this."

"By combining the efforts of the Foundation and TMSI, TORCH can really become a leader in the field of information technology for rural hospitals.

Nancy Kinkler, CEO of Otto Kaiser Memorial Hospital, in Kenedy, TX:



Resources and Administration

Reflecting on Success

2006/2007

THE PERIOD 2006/2007 offers a representative glimpse into the workings of TORCH as it strives to meet the needs and further the interests of small and rural hospitals. While much energy was rightfully focused on the 80th Texas State Legislative Session, TORCH accomplished much in the area of education, grants, leadership training and other member services. It went into the advocacy arena with a new publication – a white paper on the status of rural hospitals in Texas, which was distributed to legislators, staff members, state agencies, the news media and TORCH members.

One of the key tasks was to find new leadership, following the untimely passing of Founding President/CEO John Boff in 2006. Vice President Susan Reed, who worked with John from TORCH's beginning, ably took the reins on an interim basis until the board selected David Pearson to guide our organization into the future. Don McBeath was named to replace David as director of advocacy and communication. In addition, Quang Ngo was hired as director of project and fund development, and in 2007 given the role of CEO of the TORCH Foundation. After serving as CEO of TMSI for 10 years, Larry Krupala decided to move from the top position to semi-retirement by working on a limited number of projects. The TMSI Board selected Rob Madsen, a seasoned association professional, to lead TMSI and implement the new strategic focus to build the organization.

In 2006 TORCH launched a series of successful annual Leadership & Management Institutes, designed to place a special focus on issues facing rural hospital managers, now and in the future.

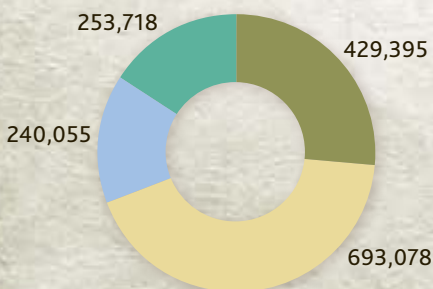
TORCH created its first grant workshop, established the John F. Boff Memorial Scholarship Endowment, named a new insurance program manager, and established its Foundation.

The 2007 year included the introduction of the new MarketPlace Newsletter, receipt of a Balanced Scorecard Grant, a Workforce Board Training grant, an increase in DSHS grant funds, and adding a new Director of Advocacy.

Financial Summary

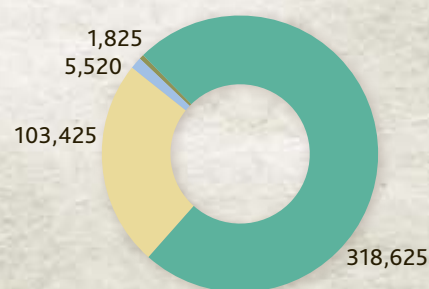
REVENUE SOURCES

Member Dues	429,395
Non-Dues Revenue	693,078
Annual Conference	240,055
Other Revenue	253,718
Total	1,616,246



MEMBERSHIP CATEGORIES

Hospital	318,625
Corporate	103,425
Affiliate	5,520
Associate	1,825
Total	429,395



FINANCIAL SUMMARY

STATEMENT OF FINANCIAL POSITION

Current Assets	1,476,856
Current Liabilities	160,574
Net Fixed Assets	6,810

Total Net Assets (Unrestricted) 1,323,092

STATEMENT OF ACTIVITIES

Revenue	1,616,246
Expenses	1,251,020

Increase in Net Assets 365,226
 Net Assets Beginning of Year 957,866

Net Assets At End of Year (Unrestricted) 1,323,092

OUR SERVICES:
*An Effective Voice
 for Rural Hospitals*

TORCH IS A GRASS-ROOTS organization that believes in involvement, advocacy, collaboration and education. Our services have evolved out of our commitment to the survival of rural and small community hospitals. Our success can be measured by how well we have listened to, and helped this unique segment of the healthcare system. In our 17-year history, we have become a credible and effective voice for small hospitals across Texas because we speak directly to their needs.

Working closely with small hospital administrators, TORCH has become a successful advocate on both state and federal levels, securing tens of millions of dollars in revenues and helping legislative leaders understand the unique needs of rural facilities. As an example, TORCH advocacy helped create the Rural Inpatient Upper Payment Limit (UPL) program that adds \$75 million a year in Medicare and Medicaid reimbursements. TORCH was also

instrumental in obtaining \$50 million in tobacco tax funds, securing a percentage of disproportionate share funds for rural hospitals, and establishing the Critical Access Hospital Program that helps keep some 80 small hospitals financially viable.

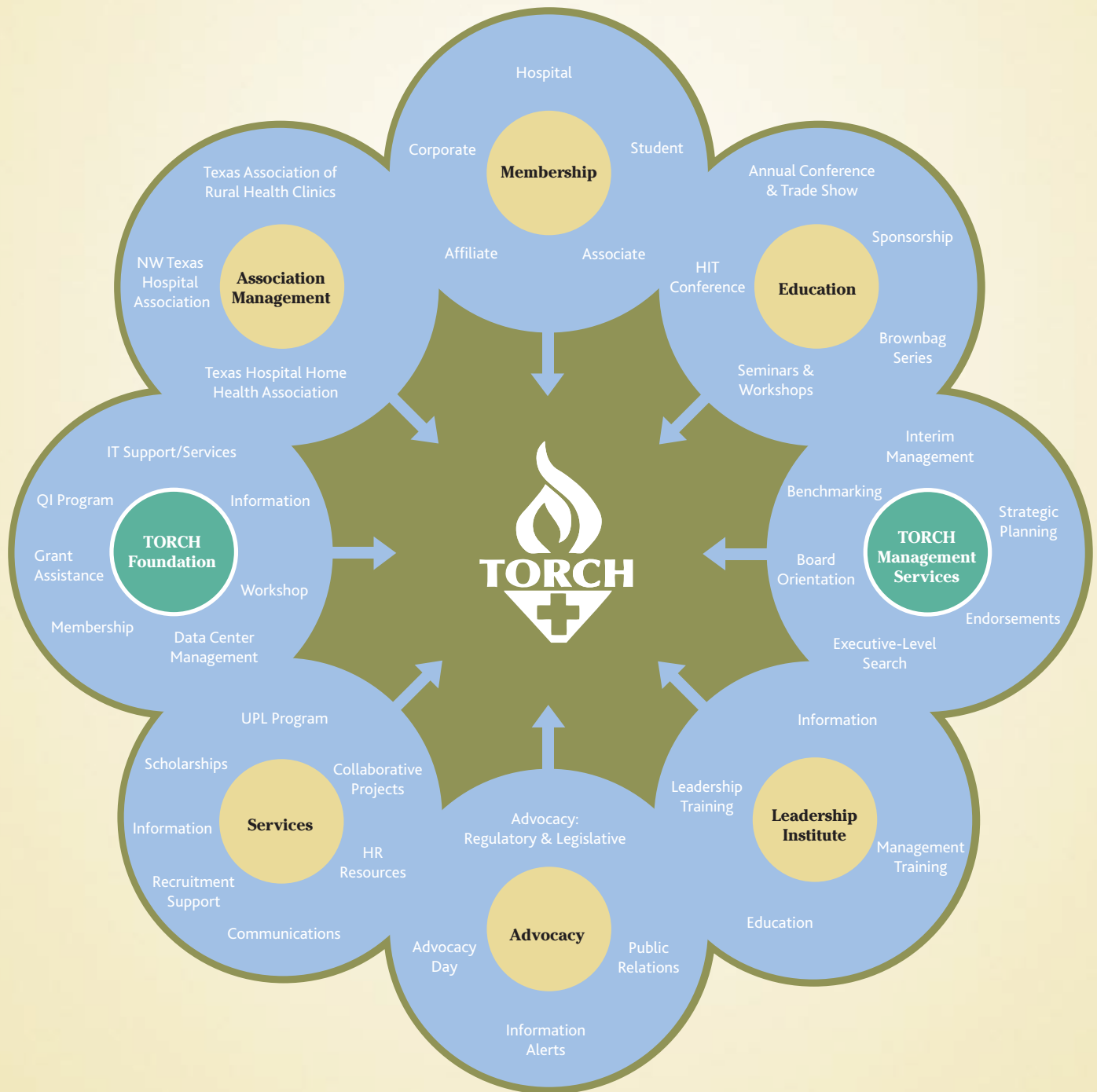
In addition, we provide:

- Leadership & Management Institute
- Annual Educational Conference and Trade Show
- Rural Hospital Advocacy Day
- Capitol Voice newsletter
- Legal Line newsletter
- Email-based news and discussion forums
- Salary Surveys
- Management and operational services



TORCH

Mission Schematic



TMSI: *Integrating Management Services*

THE NEW STRATEGIC PLAN creates a more integrated role for TORCH Management Services, Inc. (TMSI), as boards of both organizations assess future needs of rural hospitals, and the support they will need. Under the long-time direction of President Larry Krupala, TMSI has provided member hospitals with consulting, financial, program development and strategic development services. Now, Larry is reducing his work load and TMSI will go forward in the hands of newly appointed President Rob Madsen.

"I'm very encouraged and I think the succession plan is strong," said Board President Randall Young, CEO of Parker County Hospital District in Weatherford, Texas. "TMSI is ready for some good growth, and if we grow it will be because we have good products to offer. It will be because we're providing excellent services and our members are getting good value for their investment."

"There is good synergy among the boards of TORCH, TMSI and the Foundation," added TMSI Board Secretary Clarence Fields, CEO of Goodall-Witcher Hospital in Clifton, Texas. "We're all on the same page and working together."

Key services provided by TMSI in the past have included interim hospital management, board education, strategic planning, benchmarking and endorsing vendors. And while these and other services will continue, both men now envision a growing need to help rural hospitals develop the technology that will be required to meet efficiencies that will be demanded in the future, such as electronic medical records and computer networking.

The integration of TMSI and the TORCH Foundation into the TORCH strategic plan, which includes initiatives to establish comprehensive services and coordinate an organizational structure between the three groups is designed to support such growth.

"There is good synergy among the boards of TORCH, TMSI and the Foundation."



TORCH FOUNDATION: *Funding for Rural Hospital Improvement*

THE TORCH FOUNDATION grew out of the Community Hospital Foundation of Texas, and is now a 501(c)3 nonprofit subsidiary of TORCH, dedicated to seeking funding from private and public sources that will benefit rural hospitals. Its mission goes beyond the original telecommunications focus, and will be coordinated to support the vision of TORCH and TMSI as part of the new strategic plan. Quang Ngo will manage the foundation as CEO, carrying out the direction of its five-member volunteer board of directors.

“It’s tough to find seed money for innovative programs in rural hospitals, like electronic medical record keeping,” said James Vanek, chair of the Foundation board and CEO of Lavaca Medical Center in Hallettsville, Texas. “If we can do this, and assist in creating some pilot programs, we hope we can develop the foundation into something sustainable. Having a dedicated staff member will help us do the necessary leg work needed to develop partnerships between academic, state and federal sources and rural communities. Our new strategic organization will put us in the right place to respond to opportunities.”

Secretary/Treasurer Lynn Heller, CEO at Muenster Memorial Hospital in Muenster, Texas, also sees opportunities in the new strategic alliance between TORCH, TMSI and the Foundation. “It’s one more way we can take advantage of opportunities to coordinate and develop resources for rural hospitals,” he noted.

Particular opportunities exist in the fields of electronic medical records, HIPAA compliance and electronic communication, Heller said. “There are some grand ideas out there, but to make it all work, we’ll need a lot of trial and error, and we may have to look at some of these things on a regional basis, so that new systems will be formatted to be compatible with referral facilities.”

As the founding Board Chairman of TORCH when it was created in 1990, Heller is a firm believer in its member-driven legacy and sees rural hospital input as vital to the success of the foundation. “Our members need to understand that the TORCH Foundation is another entity that is set up for their benefit,” he said.



OUR HISTORY: *True to Our Roots*

THE TEXAS ORGANIZATION of Rural & Community Hospitals was created in 1990 by a passionate group of hospital administrators who felt rural health care needed a larger voice – one that would resound with their unique needs. They had seen nearly 80 small hospitals close their doors because they couldn't survive with low patient volumes and insufficient government reimbursement. From the beginning, TORCH determined that its focus was rural hospitals, and has been faithful to its grass roots beginnings and member-driven culture. Now, 17 years later, TORCH is recognized both in Texas and nationally as an effective advocate for rural hospitals, and credited with helping to shape vital legislation on behalf of its members, as well as providing for their ongoing needs in education, management development and support services.

IMPORTANT MILESTONES:

2007

Incorporated CHFTX as the nonprofit Community Hospitals Foundation of Texas, renamed the TORCH Foundation, to search out and receive grants for rural hospitals and health clinics. CHFTX began in 1999 as the Alliance to develop a rural telecommunications infrastructure for rural hospitals.

2006

Developed first TORCH Leadership & Management Institute.

2004

Secured \$25 million in additional rural UPL funding.

2003

Helped pass major liability reform and federal funding increase.

2002

Establish Medicaid Inpatient UPL program.

2001

Held first Rural Hospital Advocacy Day.

1999

Legislature adopts TORCH Rural Hospital Capital Improvement Fund.

1998

Obtained \$4.2 million in inter-connectivity grants for 89 hospitals, and established Texas Rural Hospital Telecommunication Alliance.

1995

Created TMSI and increased services provided to member hospitals.

1994

Launched vendor endorsement program, implemented HPL insurance program and vendor recognition services.

1993

Assisted in creation of Texas Association of Rural Health Clinics and Texas Hospital Home Health Association.

1992

Conducted first education conference and trade show exclusively for rural hospitals in Texas.

1991

Conducted and co-sponsored Health-Find, the first physician recruiting event for rural hospitals in Texas.



Past Board Chairs:

- Jan Reed
- Jack Endres
- Ernest Flores, Jr.
- Windell McCord
- Jim B. Smith
- Ernie Parisi
- C. Lynn Heller

Our Staff

THE UNFORTUNATE PASSING of TORCH Founding President/CEO John Boff, and the decision by TMSI Vice President Larry Krupala to reduce his workload, brought about some key staffing changes in the past year. In addition, the 2007-2009 Strategic Plan placed focus on the importance of creating comprehensive services, adequate resources and a coordinated organizational structure to better serve our member hospitals. The handing of the leadership torch to David Pearson, long-time director of advocacy and communication services, assures a continuing commitment to the member-driven focus of the Texas Organization of Rural & Community Hospitals.



DAVID PEARSON
President/CEO
TORCH



ROB MADSEN
CEO
TORCH Management
Services, Inc.



SUSAN REED
Vice President
TORCH



QUANG NGO
CEO
TORCH Foundation







TEXAS ORGANIZATION *of* RURAL & COMMUNITY HOSPITALS

— *Since 1990* —

P.O. Box 14547, Austin, TX 78761

Tel: 512.873.0045 | Fax: 512.873.0046

www.torchnet.org

