

NUECES COUNTY HOSPITAL DISTRICT

ANNUAL FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2013

NUECES COUNTY HOSPITAL DISTRICT
AUDITED FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2013

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INDEPENDENT AUDITOR'S REPORT

February 5, 2014

The Board of Managers of the
Nueces County Hospital District
Corpus Christi, Texas

Report on the Financial Statements

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Nueces County Hospital District, a component unit of Nueces County, Texas, as of and for the year ended September 30, 2013, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Nueces County Hospital District as of September 30, 2013, and the respective changes in financial position and budgetary comparisons for the general fund and indigent care fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 16 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the District's basic financial statements. The combining financial statements and the budgetary comparison information, listed in the table of contents on pages 48 through 55 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented in all material respects in relation to the basic financial statements taken as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Governmental Auditing Standards*, we have also issued our report dated February 5, 2014 on our consideration of the Nueces County Hospital District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Collier, Johnson & Woods

**Nueces County Hospital District
Management's Discussion and Analysis
For Fiscal Year Ended September 30, 2013**

This Management's Discussion and Analysis ("MD&A") of the Nueces County Hospital District ("District"), a political subdivision of the State of Texas and component unit of Nueces County, Texas ("County"), is intended to provide an overview of the District's financial position and results of operation for year ended September 30, 2013 ("Fiscal Year 2013"). Since the focus of the MD&A is on the above fiscal period's operations, activities, and currently known facts, it should be read in conjunction with the District's related financial statements and accompanying notes to best understand the District's financial position.

The MD&A is one of the elements of the reporting model required by the Government Accounting Standards Board ("GASB"). As part of the MD&A, presentation of certain comparative information between the current fiscal year and the prior fiscal year is required to assist in financial analysis.

Financial Highlights

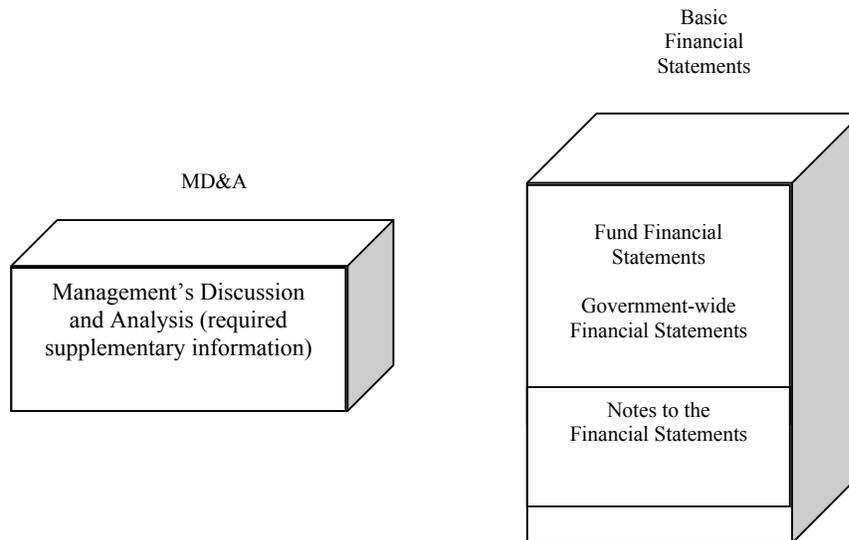
At fiscal year ended September 30, 2013, the District's General Fund balance was \$77.466 million compared to \$5.011 million in 2012. Effective October 1, 2012 the District, Christus Health, and Christus Spohn Health System Corporation ("Spohn") entered into a Christus Spohn Health System Corporation Membership Agreement ("Membership Agreement") to benefit the District's provision of medical aid and hospital care to the indigent and needy residents residing in the District and support the Texas Health and Human Services Commission's Medicaid Section 1115 Demonstration Waiver (the "Waiver") program implemented statewide in 2012 by the State of Texas ("State") including the District's role as the State-designated anchor entity ("Anchor") for the Regional Healthcare Partnership, Region 4, formed by the State under the Waiver program. The Membership Agreement superseded and replaced the District's prior agreements with Spohn. As a result of the Membership Agreement, the District's net change in fund balance increased by \$72.455 million during the fiscal year as the District assembled funds for future voluntary Waiver-related intergovernmental transfers to the State. This will enable regional health care providers, who provide indigent healthcare as part of the District's primary mission, to draw supplemental Medicaid Waiver-related funds.

The net position of the District on September 30, 2013 and 2012 was \$111.636 million and \$53.133 million, respectively. Cash and investments amounted to \$106.366 million and \$32.896 million which represent 91% of total assets for September 30, 2013 and 55% for 2012, respectively.

The District's Board of Managers adopted a resolution committing \$68.5 million of the District's fiscal year-end General Fund balance cash to funding the Waiver-related intergovernmental transfers that were delayed by the State during the fiscal year, but are expected to be requested sometime during the District's subsequent fiscal year. Please refer to Note 12 on intergovernmental transfers and Note 13 on committed fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

The following graphic is provided to facilitate the reader's understanding of the format of the Basic Financial Statements and their individual components:



The District's Annual Financial Report consists of the MD&A, the basic financial statements and accompanying notes, with the primary focus being on the District as a whole. As a special purpose entity with only one governmental program, GASB allows the District to combine its government-wide and fund financial statements and that is done so here. The Statement of Net Position and the Statement of Activities are government-wide financial statements that provide both short-term and long-term information about the District's overall financial status. The fund financial statements report the District's operations in more detail by providing information as to how services are financed in the short-term, as well as the remaining available resources for future spending. Additionally, the fund financial statements focus on major funds that, for the District, include the General Fund and the Indigent Care Fund, rather than fund types. The Fiduciary Fund statements provide financial information for those activities in which the District acts solely as the trustee or agent for the benefit of others. The accompanying notes provide essential information that is not disclosed on the face of the financial statements. Consequently, the notes form an integral part of the District's basic financial statements. Other supplemental financial information includes the combining schedules and budget schedules.

The District has two kinds of funds:

- 1.) **Government Funds** - The accounting for most of the District's services is included in the governmental funds. The General Fund, Special Revenue Fund, and Debt Service Fund are governmental funds that use the modified accrual accounting method which focuses on how cash and other financial assets that can readily be converted to cash and the balance at year-end that are available for future spending. Furthermore, under this basis of accounting, changes in net spendable assets are normally recognized only to the extent that they are expected to have a near-term impact, while inflows are recognized only if they are available to liquidate liabilities of the current period. Similarly, future outflows are typically recognized only if they represent a depletion of current financial resources.
- 2.) **Fiduciary Funds** - These funds are used to report activity and other resources held purely in a custodial capacity. The resources accounted for in these funds are excludable from the government-wide financial statements or columns because these funds are not available to finance the District's operations. Consequently, the District is responsible for ensuring that these resources are used only for their intended purpose. The District has an irrevocable trust originally used for self-insured health claims of the then employees of the District's hospital, Memorial Medical Center. The fund may be used to subsidize the District's current employees with their health insurance premiums.

Notes to the Financial Statements

The notes provide disclosures and additional information that are essential to a full understanding of the financial information presented in the government-wide and fund financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also provides combining and individual fund statements and schedules.

GOVERNMENT WIDE-FINANCIAL ANALYSIS

Statement of Net Position (Government-Wide)

The District's total Net Position was \$111.636 million and \$53.133 million as of September 30, 2013 and 2012, respectively, an increase of \$58.503 million or 110.1%. Total assets increased \$56.903 million or 95.1% compared to September 30, 2012. The District's total liabilities decreased \$1.599 million or 23.9% compared to September 30, 2012.

TABLE A-1
Nueces County Hospital District Net Position
September 30, 2013 and 2012
(In Thousands)

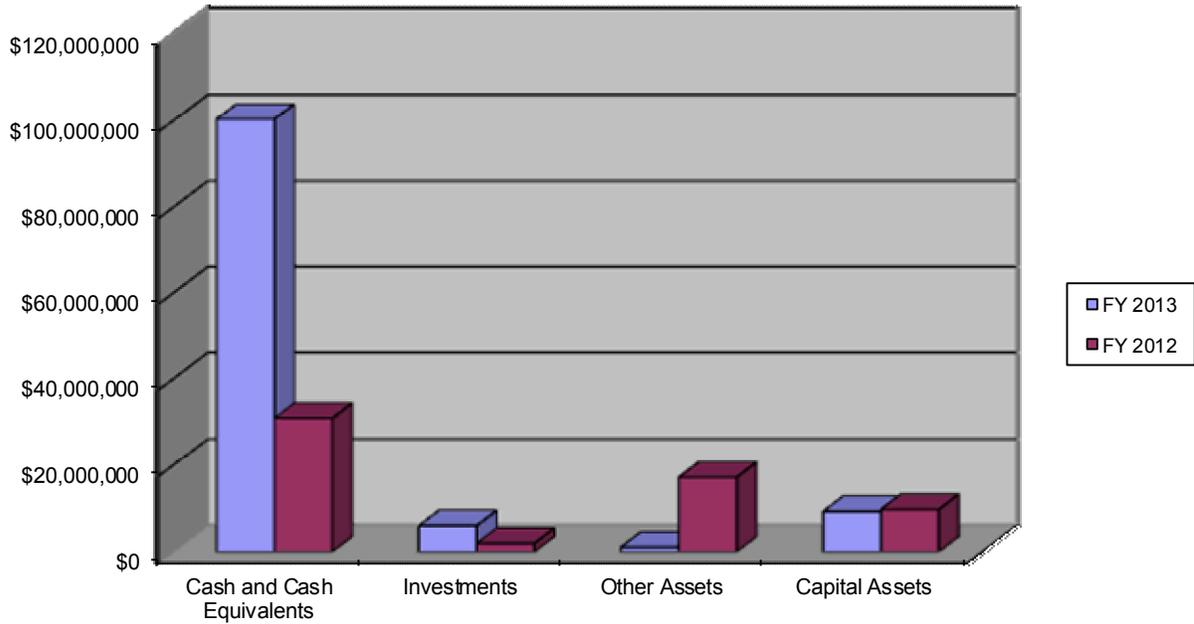
	<u>2013</u>	<u>2012</u>	<u>2013-2012</u> <u>Variance</u>
Assets:			
Cash and Cash Equivalents	\$ 100,364	\$ 30,894	\$ 69,470
Investments	6,002	2,002	4,000
Other Assets	1,081	17,160	(16,079)
Capital Assets (Net of Accumulated Depreciation)	9,280	9,768	(488)
Total Assets	<u>116,727</u>	<u>59,824</u>	<u>56,903</u>
Liabilities:			
Accounts Payable	1,362	1,293	69
Accrued Payroll and Related Liabilities	80	74	6
Accrued Interest	36	52	(16)
Long-Term Liabilities:			
Due Within One Year	1,740	1,675	65
Due in More Than One Year	1,874	3,597	(1,723)
Total Liabilities	<u>5,092</u>	<u>6,691</u>	<u>(1,599)</u>
Net Position:			
Invested in Capital Assets, Net of Related Debt	5,737	4,501	1,236
Unrestricted	105,899	48,632	57,267
Total Net Position	<u>\$ 111,636</u>	<u>\$ 53,133</u>	<u>\$ 58,503</u>

Financial Analysis

In Fiscal Year 2013, the \$73.470 million or 223.3% net increase in cash and cash equivalents and investments combined is the result of the timing difference between receipt of revenue from the Membership Agreement and the State's delay of Waiver-related intergovernmental transfer requests. The \$16.079 million or 93.7% decrease in other assets relates to elimination of the capital lease receivable from the District's prior agreement with Spohn and the District's contribution of the assets to be used by Spohn under terms of the Membership Agreement along with a reduction in certain receivables from the State. The \$488 thousand or 4.9% decrease in Capital Assets (Net of Accumulated Depreciation) mainly relates to depreciation expense. Accounts Payable increased \$69 thousand or 5.3% due to annual fluctuations in payments of accrued county healthcare liabilities. Long Term Liabilities had a \$1.723 million or 47.9% net decrease mainly as the result of payments of bond debt.

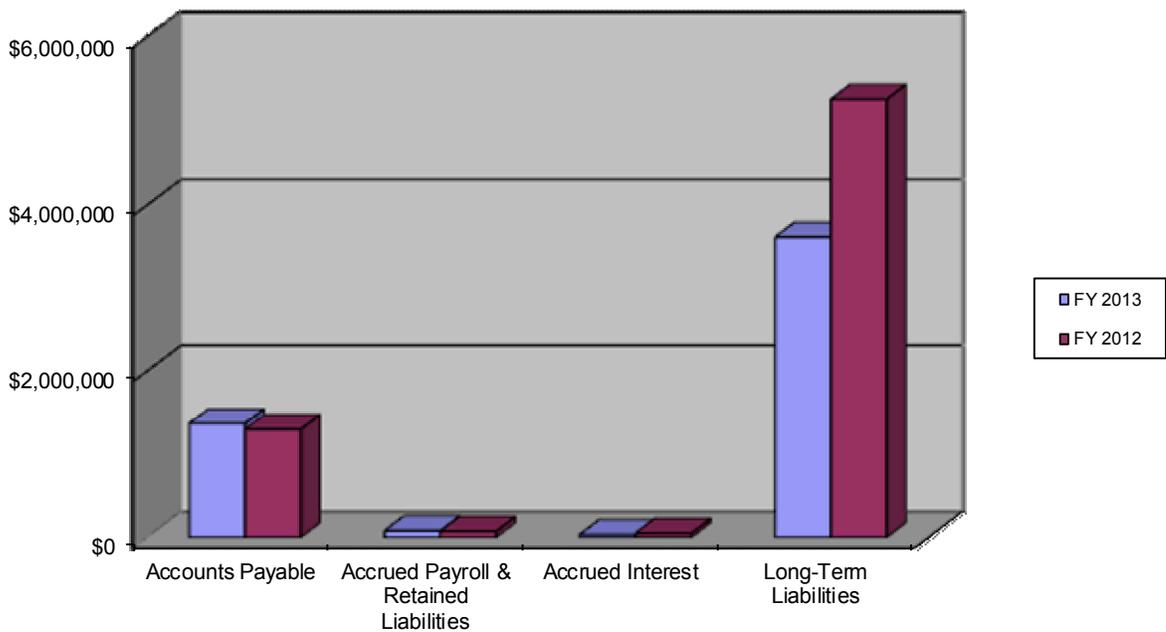
Please refer to Table A-1 above for details of Chart A-1.1 below relating to the District's Assets.

**CHART A-1.1
District Assets**



Please refer to Table A-1 above for details of Chart A-1.2 below relating to the District's Liabilities.

**CHART A-1.2
District Liabilities**



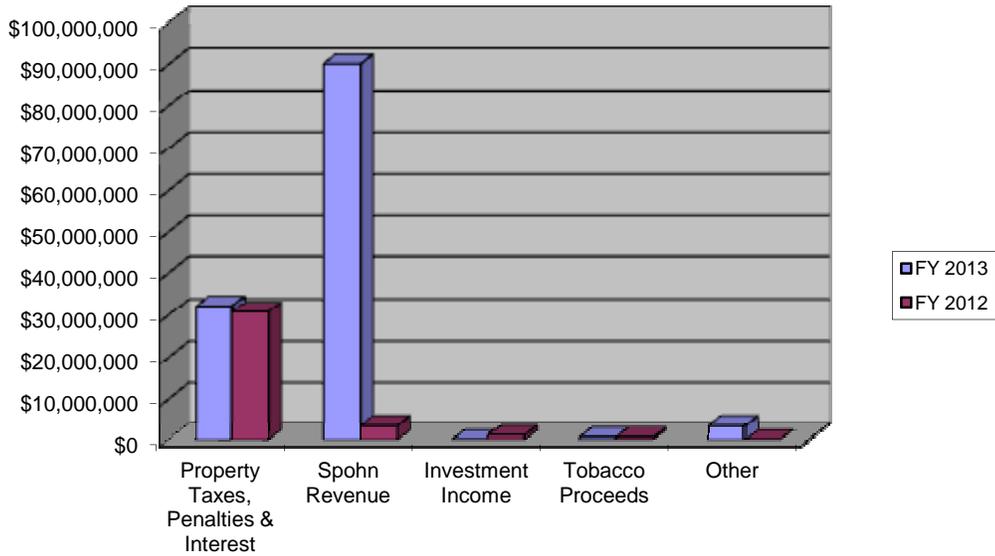
Statement of Activities (Government-Wide)

TABLE A-2
Changes in Nueces County Hospital District Net Position
Years Ended September 30, 2013 and 2012
(In Thousands)

	<u>2013</u>	<u>2012</u>	<u>2013-2012</u> <u>Variance</u>
Revenues:			
Property Taxes and Penalties and Interest	\$ 32,258	\$ 30,900	\$ 1,358
Spohn Corporate Membership Revenue	90,204	--	\$ 90,204
Spohn Rental Payments	--	3,368	(3,368)
Investment Income	83	1,147	(1,064)
Tobacco Proceeds	657	699	(42)
Other	3,380	31	3,349
Total Revenues	126,582	36,145	90,437
Expenses:			
General Government	1,999	1,639	360
Health	50,249	37,927	12,322
Depreciation	495	519	(24)
Total Expenses	52,743	40,085	12,658
Debt Service-			
Interest and Fiscal Charges	218	288	(70)
Excess of Revenues Over			
(Under) Expenditures	73,621	(4,228)	77,849
Special Item-			
Loss on Write off of Hospital Receivable	(15,118)	--	(15,118)
Net Change in Fund Balance	58,503	(4,228)	62,731
Fund Balance/Net Position,			
Beginning of Year	53,133	57,361	(4,228)
FUND BALANCE, NET POSITION,			
END OF YEAR	\$ 111,636	\$ 53,133	\$ 58,503

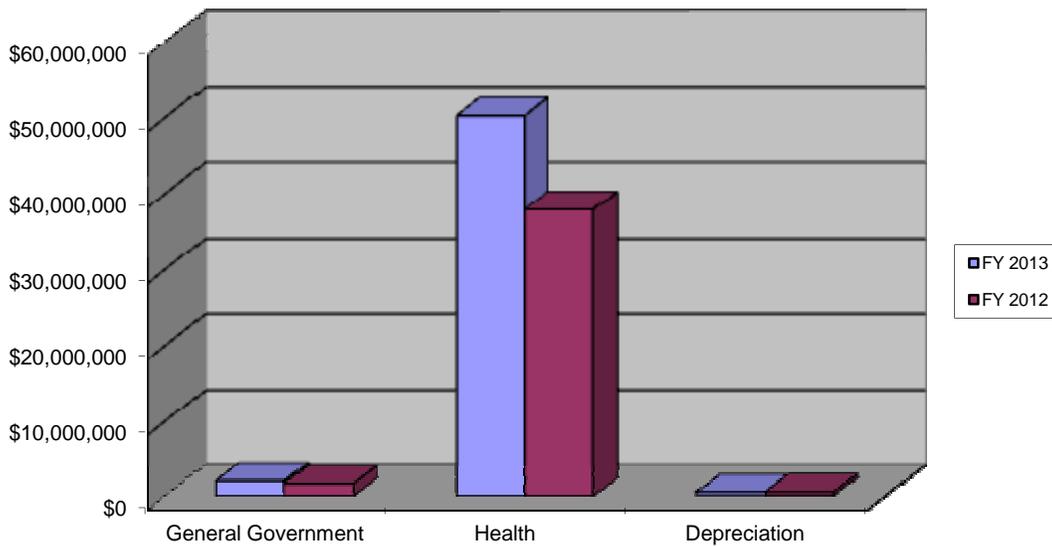
Please refer to Table A-2 above for details of Chart A-2.1 below relating to the District's Revenues.

**CHART A-2.1
District Revenues**



Please refer to Table A-2 above for details of Chart A-2.2 below relating to the District's Expenses.

**CHART A-2.2
District Expenses**



FINANCIAL ANALYSIS

Revenues

In Fiscal Year 2013, the District's total revenues increased \$90.437 million or 250.2% compared to the prior fiscal year. There were four principal sources of revenue for the District. The first and historical source of revenue is from taxes levied on Nueces County property owners based on assessed valuations. These ad valorem tax revenues increased by \$1.358 million or 4.4% and accounted for 25.4% of total revenues compared to 85.5% in the prior fiscal year. The District's tax rate during Fiscal Year 2013 remained the same as the prior fiscal year at \$0.162428 per \$100 valuation. Property valuations increased by \$751.798 million or 3.9%. The second and, during Fiscal 2013, primary source is from the Membership Agreement with Spohn which accounted for \$90.204 million and 71.3% of total revenue. See Note 3 for an outline of the Membership Agreement. The third source is investment income which decreased \$1.064 million or 92.7% due to termination of the capital lease. The fourth source is Tobacco Settlement reimbursements from the State of Texas' tobacco litigation which decreased by \$42 thousand or 6.0% compared to prior fiscal year. Other revenue which increased \$3.349 million from prior year are primarily comprised of a \$3.336 million Waiver payment from the State for serving as the Anchor for Region 4 under the Waiver program.

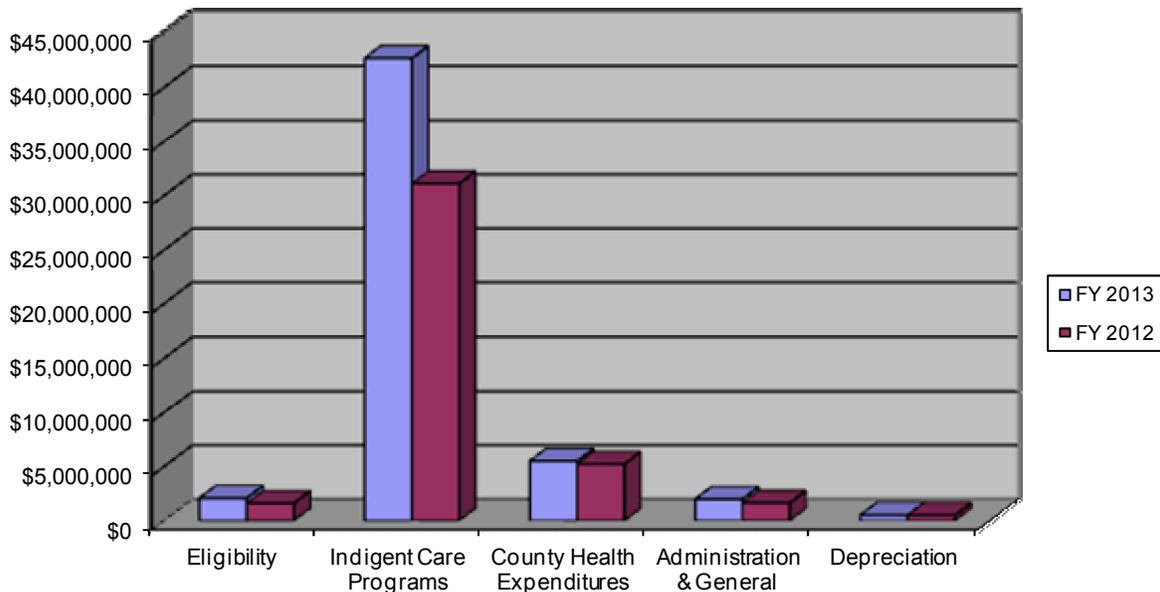
TABLE A-3
Net Cost of Selected District Functions
(In Thousands)

	<u>2013</u>	<u>2012</u>	<u>2013-2012</u> <u>Variance</u>
Eligibility	\$ 2,082	\$ 1,605	\$ 477
Indigent Care Programs	--	31,100	(31,100)
Intergovernmental Transfers	42,659	--	42,659
County Healthcare Expenditures	5,508	5,221	287
Administration and General	1,999	1,640	359
Depreciation	495	519	(24)
TOTAL	<u>\$ 52,743</u>	<u>\$ 40,085</u>	<u>\$ 12,658</u>

Expenditures

The primary expenditures of the District's functions in Fiscal Year 2013 increased \$12.658 million or 31.5% compared to the prior fiscal year. Health expenses include county healthcare expenditures and Intergovernmental Transfers. Using a combination of tax and Membership Agreement-related revenues, the District makes voluntary intergovernmental transfers to the State for benefit of various regional health care providers who provide indigent healthcare. The intergovernmental transfers draw down additional federal funds based on the Providers' achievement of Waiver-related project metrics and milestones, and their provision of uncompensated care. This cost totaled \$42.659 million in Fiscal Year 2013 and represented 80.8% of all functional expenditures. The second largest amount of cost is \$5.508 million for county healthcare expenditures which relates to the District's support of other healthcare services in the County. The District directly or indirectly pays for non-indigent healthcare-related service costs that were paid by Nueces County in earlier years. These costs include expenses such as county jail and juvenile detention center healthcare services, reimbursement of operating expenditures at the City/County Public Health Department, match and other subsidies for the local Behavioral Health Center of Nueces County and costs associated with operation of the County Jail's infirmary. This cost increased \$287 thousand or 5.5% in Fiscal Year 2013 compared to the prior fiscal year. County healthcare expenditure costs represented 10.4% of all the District's net costs in fiscal year 2013 compared to 13% in the prior fiscal year. The two other costs of the District were Administrative and General and Eligibility costs. Collectively, these costs increased \$836 thousand or 25.7% during Fiscal Year 2013 compared to the prior fiscal year. The incremental costs incurred were primarily the result of the District serving as the State-designated Anchor for Region 4 formed by the State under the Waiver. In addition, major costs in this category were legal fees, consulting fees, rents, supplies, purchased services, and salaries and benefits. Administrative and general costs represented 3.7% of all net costs in Fiscal Year 2013 compared to 4.1% in the prior fiscal year. Eligibility costs represented 3.9% of all net costs in Fiscal Year 2013 compared to 4% in the prior fiscal year. Please refer to Table A-3 above for details of Chart A-3 below relating to the District's net cost of selected functions.

**CHART A-3
Expenditures of Selected District Functions**



General Fund Budgetary Highlights

Expectations for the District’s general fund budget were surpassed during Fiscal Year 2013.

Revenues

Revenues exceeded budget by \$28.448 million. The excess is primarily attributed to new revenue resulted from the Membership Agreement, which had an excess of \$24.187 million. The excess is due to the use of an estimate of the Membership Agreement’s initial revenue sharing allocation percentage between the District and Spohn when the Fiscal Year 2013 budget was developed. \$850.4 thousand of the revenue excess was related to the collections of ad valorem taxes, penalties and interest. Investment income exceeded budget by \$28.9 thousand. Finally, the District received an unbudgeted \$3.336 million payment from the State for the District’s performance as the Region 4 Anchor during the Waiver’s initial year; that payment had not been budgeted due to State administrative Waiver rules which then-prohibited payments to anchor entities that were not also Medicaid providers.

Expenditures

Expenditures were less than budget by \$39.302 million. Of the expenditures less than budget, \$39.063 million was associated with State delays in requesting Waiver-related intergovernmental transfers from the District. At the time the Fiscal Year 2013 budget was developed, the State had not yet adopted administrative Waiver rules that established a transfer timetable. Personal services were less than budget by \$164.2 thousand due to the increased utilization of the District’s paid-time-off accrued liability and less than maximum participation of certain benefit programs. City and County services were under budget by \$381.7 thousand due to a reclassification of expense to the intergovernmental transfer made on behalf of the Nueces County Health Department of \$255.6 thousand and the balance to underutilization by the County. The Other category which includes office lease and administrative expenditures ended under budget by \$30.4 thousand. Contractual Services were over budget this year by \$386.4 thousand mainly due to increased usage of legal and consultant fees as the scope of Waiver’s implementation and related Anchor duties expanded and multiplied during Fiscal Year 2013.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District had \$9.280 million in net capital assets at the end of September 30, 2013. The breakdown of the capital assets is as follows:

TABLE A-4
Nueces County Hospital District's Capital Assets
(In Thousands)

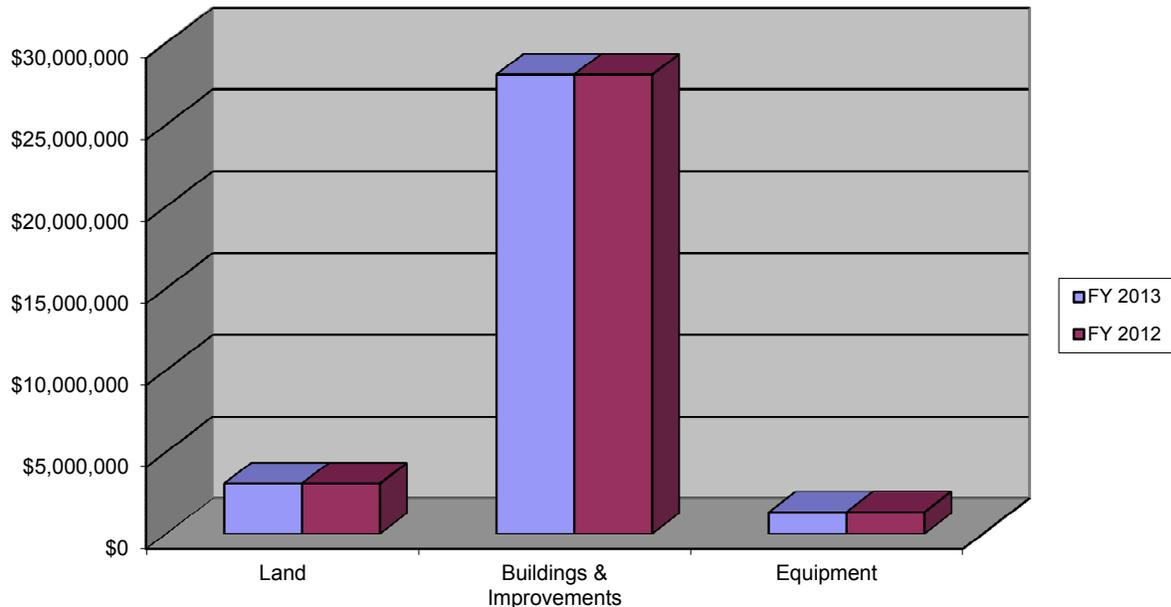
	<u>2013</u>	<u>2012</u>	<u>2013-2012</u> <u>Variance</u>
Land	\$ 3,077	\$ 3,077	\$ --
Buildings and Improvements	28,073	28,073	--
Equipment	1,306	1,327	(21)
Total	<u>32,456</u>	<u>32,477</u>	<u>(21)</u>
Less: Accumulated Depreciation	23,176	22,709	467
NET CAPITAL ASSETS	<u>\$ 9,280</u>	<u>\$ 9,768</u>	<u>\$ (488)</u>

Under terms of the Membership Agreement, The District contributed the use of Memorial Medical Center (MMC) buildings and equipment to Spohn; and Spohn is responsible for maintaining the buildings and equipment, and the purchase of any medical and other equipment needed during the Agreement's term. The Agreement requires that Spohn spend an average of \$6 million per year on upkeep of the buildings and equipment. Please refer to Note 8 - Capital Assets of the Financial Statements for more details on capital assets.

During Fiscal Year 2013, the District held surplus auctions to dispose of equipment no longer needed.

Please refer to Table A-4 above for details of Chart A-4 below relating to the District's Capital Assets.

**CHART A-4
District Capital Assets**



Long-Term Debt

**TABLE A-5
Nueces County Hospital District's Long-Term Debt
(In Thousands)**

	<u>2013</u>	<u>2012</u>	<u>2013-2012 Variance</u>
Bonds Payable	\$ 3,541	\$ 5,201	\$ (1,660)
Accrued Paid Time Off	<u>73</u>	<u>71</u>	<u>2</u>
NET LONG-TERM DEBT	<u>\$ 3,614</u>	<u>\$ 5,272</u>	<u>(\$1,658)</u>

The bonds payable matures on July 1, 2015. Future years interest rates associated with the District's long-term bond debt are 4.0% (2014) and 4.1% (2015). The bonds are secured and payable from a continuing direct annual ad valorem tax levied on all taxable property located within Nueces County. The District's sole bond indebtedness is the Limited Tax Refunding Bonds, Series 2003.

Please refer to Note 10 - Long-Term Obligations of the Financial Statements for more information on the District's debt.

Economic Factors, Next Year's Budget, Tax Rates and Property Valuations, and Financial Planning

Economic Factors

State budget pressures may alter funding, services, or eligibility for its Medicaid program which could affect enrollments in the District's indigent health care program. Texas has the highest health care uninsured rate in the nation and the County's rate is among the highest in the State. The benefits of the 2010 Federal legislation that intended to reduce the number of health care uninsured persons nationally may not be fully realized in Texas; during the forthcoming District fiscal year this may affect the number of persons enrolled in the District's indigent health care program.

Next Year's Budget

For the District's forthcoming fiscal year ending September 30, 2014, the District's Board of Managers and County Commissioners Court approved a District operating budget wherein expenditures exceed revenues by \$63.256 million. The deficit is planned. The deficit is also attributable to the transfer of intergovernmental funds for the Waiver delayed by the State in the prior fiscal year, thus requiring increased amounts of intergovernmental funds to be transferred to the State in support of the Waiver and a budgeted reduction in the revenue from the Membership Agreement. Please refer to Note 12 on intergovernmental transfers and Note 13 on committed fund balance.

Tax Rates and Property Valuations

The property valuations for the District's forthcoming fiscal year ending September 30, 2014 are \$21.953 billion, an increase of 9.91% from the prior year. To offset this increase, County Commissioners Court has decreased the District's tax rate for the Fiscal Year 2014 budget to \$0.148077 per \$100 valuation, which is the effective tax rate. The fiscal year ending September 30, 2014 budget estimates total tax revenues of \$31.495 million, an increase of \$40.9 thousand or 0.13% over Fiscal Year 2013. Although the District realized an unusual increase in property valuations for fiscal year ending September 30, 2014; subsequent valuations will likely be less. The District expects minimal tax base expansion and minimal increases in property values in subsequent fiscal periods.

Financial Planning

The District is required by law to provide certain State-mandated medical aid and hospital care services to indigent residents of the County using locally-generated funds. In recent years, the District has used a combination of tax revenues and committed funds in the indigent care fund to fund this obligation. The District has also used its committed funds to fund certain County healthcare related functions previously paid by the County. In future years, the District anticipates lessening its reliance on committed funds. The District does not receive State or Federal funding for indigent health care. The District expects to continue receiving Federal funds annually for serving as the State-designated Anchor Entity for the Regional Healthcare Partnership, Region 4 formed by the State under the Waiver. The District assumes that the Membership Agreement's revenue sharing allocation percentage between the District and Spohn will be sufficient in the future to support the District's goals.

CONTACTING DISTRICT MANAGEMENT

These District financial statements are designed to provide our citizens, taxpayers, elected officials, investors, creditors, and others with a general overview of the District's financial position and results of operations, to demonstrate the District's accountability for the tax and other funds it receives, and show use of the District's expenditures. Questions concerning any of the information contained in these statements or requests for additional statement information can be directed to the District at:

Nueces County Hospital District
Administrative Offices
555 N. Carancahua St., Suite 950
Corpus Christi, TX 78401-0835
Telephone: 361-808-3300
Facsimile: 361-808-3274
<http://www.nchdcc.org/contact.cfm>

HISTORICAL AUDITED FINANCIAL STATEMENTS

Recent historical audited financial statements of the District are available via the Internet and can be viewed or downloaded in Portable Document Format from www.nchdcc.org/financial.cfm.

Basic Financial Statements

NUECES COUNTY HOSPITAL DISTRICT

(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

GOVERNMENTAL FUNDS BALANCE SHEET / STATEMENT OF NET POSITION

SEPTEMBER 30, 2013

	<u>GENERAL</u>	<u>INDIGENT CARE FUND</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>
ASSETS			
Cash and Cash Equivalents (Note 4)	78,766,900	21,122,643	474,065
Investments (Note 4)	334	6,001,692	--
Accrued Interest	2	2,892	--
Taxes Receivable Net Of Allowance for Uncollectibles (Note 7):	927,710	--	--
Prepaid Expenditures	141,089	--	--
Bond Issue Costs	--	--	--
Land (Note 8)	--	--	--
Other Capital Assets, net of Accumulated Depreciation (Note 8)	--	--	--
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	<u>79,836,035</u>	<u>27,127,227</u>	<u>474,065</u>

Exhibit 1

GOVERNMENTAL FUNDS TOTAL	ADJUSTMENTS EXHIBIT 2	STATEMENT OF NET POSITION
100,363,608	--	100,363,608
6,002,026	--	6,002,026
2,894	--	2,894
927,710	--	927,710
141,089	--	141,089
--	10,996	10,996
--	3,076,926	3,076,926
--	6,202,836	6,202,836
107,437,327	9,290,758	116,728,085

(Continued)

NUECES COUNTY HOSPITAL DISTRICT

(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

GOVERNMENTAL FUNDS BALANCE SHEET / STATEMENT OF NET POSITION

SEPTEMBER 30, 2013

	<u>GENERAL</u>	<u>INDIGENT CARE FUND</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>
LIABILITIES			
Accounts Payable	1,362,794	--	--
Accrued Payroll and Related Liabilities	79,524	--	--
Accrued Interest	--	--	36,004
Deferred Revenue (Note 9)	927,710	--	--
Long-term Liabilities (Note 10):			
Due Within One Year	--	--	--
Due in More Than One Year	--	--	--
	<hr/>		
TOTAL LIABILITIES	2,370,028	--	36,004
 FUND EQUITY/NET POSITION			
Fund Balances:			
Nonspendable	141,089	--	--
Committed to: (Note 13)			
Intergovernmental Transfers	68,500,000	--	--
Indigent Care		27,127,227	--
Assigned to:			
Debt Service	--	--	437,419
County Health Care	--	--	642
Unassigned	8,824,918	--	--
Total Fund Equity	<hr/>	<hr/>	<hr/>
	77,466,007	27,127,227	438,061
TOTAL LIABILITIES AND FUND EQUITY	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
	79,836,035	27,127,227	474,065

Net Position:
 Invested in Capital Assets, net of Related Debt
 Unrestricted

TOTAL NET POSITION

The notes to the financial statements are an integral part of this statement.

Exhibit 1
Continued

GOVERNMENTAL FUNDS TOTAL	ADJUSTMENTS EXHIBIT 2	STATEMENT OF NET POSITION
1,362,794	--	1,362,794
79,524	--	79,524
36,004	--	36,004
927,710	(927,710)	--
--	1,740,000	1,740,000
--	1,873,833	1,873,833
2,406,032	2,686,123	5,092,155
141,089	(141,089)	--
68,500,000	(68,500,000)	--
27,127,227	(27,127,227)	--
437,419	(437,419)	--
642	(642)	--
8,824,918	(8,824,918)	--
105,031,295	(105,031,295)	--
<u>107,437,327</u>		
	5,737,166	5,737,166
	105,898,764	105,898,764
	<u>111,635,930</u>	<u>111,635,930</u>

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NUECES COUNTY HOSPITAL DISTRICT**(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)****EXPLANATIONS FOR ADJUSTMENTS TO RECONCILE
GOVERNMENTAL FUNDS - BALANCE SHEET TO THE STATEMENT OF NET POSITION**

Total Fund Balance - Total Governmental Funds	105,031,295
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of the assets is \$32,456,122 and the accumulated depreciation is \$23,176,360 (Note 8)	9,279,762
Taxes receivable, net of allowance is not available to pay for current period expenditures and is, therefore, deferred in the governmental funds. (Note 9)	927,710
Long-Term liabilities, including bonds payable unamortized premium and loss on refunding and accrued paid time off, are not due and payable in the current period and, therefore, are not reported in funds. (Note 9)	(3,613,833)
Bond issuance costs are not reported in the governmental funds.	<u>10,996</u>
NET POSITION	<u><u>111,635,930</u></u>

The notes to the financial statements are an integral part of this statement.

NUECES COUNTY HOSPITAL DISTRICT

(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

**STATEMENT OF GOVERNMENTAL FUND REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES**

YEAR ENDED SEPTEMBER 30, 2013

	<u>GENERAL</u>	<u>INDIGENT CARE FUND</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>
Revenues:			
Taxes	31,930,915	--	--
Penalties and Interest - Taxes	373,660	--	--
Spohn Corporate Membership Revenue	90,204,114	--	--
Investment Income	44,447	37,644	957
Tobacco Settlement	--	--	656,850
Other	3,381,575	--	--
Total Revenue	<u>125,934,711</u>	<u>37,644</u>	<u>657,807</u>
Expenditures:			
Current:			
General Government	1,997,305	--	--
Health	50,249,500	--	--
Depreciation	--	--	--
Capital Outlay	7,243	--	--
Total Current	<u>52,254,048</u>	<u>--</u>	<u>--</u>
Debt Service:			
Principal Payments	--	--	1,675,000
Interest and Fiscal Charges	--	--	191,754
Payment to Escrow Agent	--	--	300
Total Debt Service	<u>--</u>	<u>--</u>	<u>1,867,054</u>
Total Expenditures	<u>52,254,048</u>	<u>--</u>	<u>1,867,054</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	73,680,663	37,644	(1,209,247)
Other Financing Sources (Uses):			
Transfers In (Note 14)	657,000	--	1,883,004
Transfers Out (Note 14)	(1,883,004)	--	(657,000)
Total Other Financing Sources (Uses)	<u>(1,226,004)</u>	<u>--</u>	<u>1,226,004</u>
Net Change in Fund Balance Before Special Item	72,454,659	37,644	16,757
Special Item -			
Loss on Write off of Hospital Receivable (Note 3)	--	--	--
Net Change in Fund Balance	<u>72,454,659</u>	<u>37,644</u>	<u>16,757</u>
Fund Balance/Net Position, Beginning of Year	<u>5,011,348</u>	<u>27,089,583</u>	<u>421,304</u>
FUND BALANCE/NET POSITION, END OF YEAR	<u>77,466,007</u>	<u>27,127,227</u>	<u>438,061</u>

The notes to the financial statements are an integral part of this statement.

Exhibit 3

GOVERNMENTAL FUNDS TOTAL	ADJUSTMENTS EXHIBIT 4	STATEMENT OF NET POSITION
31,930,915	(45,903)	31,885,012
373,660	--	373,660
90,204,114	--	90,204,114
83,048	--	83,048
656,850	--	656,850
3,381,575	(1,022)	3,380,553
<u>126,630,162</u>	<u>(46,925)</u>	<u>126,583,237</u>
1,997,305	1,936	1,999,241
50,249,500	--	50,249,500
--	494,637	494,637
7,243	(7,243)	--
<u>52,254,048</u>	<u>489,330</u>	<u>52,743,378</u>
1,675,000	(1,675,000)	--
191,754	26,629	218,383
300	--	300
<u>1,867,054</u>	<u>(1,648,371)</u>	<u>218,683</u>
<u>54,121,102</u>	<u>(1,159,041)</u>	<u>52,962,061</u>
72,509,060	1,112,116	73,621,176
2,540,004	(2,540,004)	--
<u>(2,540,004)</u>	<u>2,540,004</u>	<u>--</u>
<u>--</u>	<u>--</u>	<u>--</u>
72,509,060	1,112,116	73,621,176
--	(15,118,214)	(15,118,214)
<u>72,509,060</u>	<u>(14,006,098)</u>	<u>58,502,962</u>
<u>32,522,235</u>	<u>20,610,733</u>	<u>53,132,968</u>
<u>105,031,295</u>	<u>6,604,635</u>	<u>111,635,930</u>

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NUECES COUNTY HOSPITAL DISTRICT**(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)****EXPLANATIONS FOR ADJUSTMENTS TO RECONCILE
GOVERNMENTAL FUNDS - STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES**

Net Change in Fund Balances - Total Governmental Funds	72,509,060
Amounts reported for governmental activities in the statement of net position are different because:	
Outstanding principal from the hospital receivable was recorded as revenue in a prior period for the statement of activities while collections of the receivable were recorded annually in the governmental funds. The previously reported revenue was written off in the statement of activities due to changes in the lease agreement with Spohn. (Note 3)	(15,118,214)
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation of \$494,637 was less than capital outlays of \$7,243 and loss on disposal of \$1,022 in the current period. (Note 8)	(488,416)
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is repayments for the year. (Note 9)	1,675,000
Bond issuance costs are expenditures in the governmental funds but are capitalized and amortized in the net position. Premiums and loss on refunding are also amortized.	(26,629)
Revenues from uncollected taxes that do not provide current financial resources are included in the statement of activities and not reported as revenues in the governmental funds.	<u>(45,903)</u>
CHANGE IN NET POSITION	<u><u>58,502,962</u></u>

The notes to the financial statements are an integral part of this statement.

NUECES COUNTY HOSPITAL DISTRICT**(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)****GENERAL FUND****STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**
BUDGET (GAAP BASIS) AND ACTUAL**YEAR ENDED SEPTEMBER 30, 2013**

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues:			
Taxes	31,149,540	31,930,915	781,375
Penalties and Interest - Taxes	304,641	373,660	69,019
Spohn Corporate Membership Revenue	66,016,619	90,204,114	24,187,495
Investment Income	15,463	44,447	28,984
Other	--	3,381,575	3,381,575
Total Revenues	<u>97,486,263</u>	<u>125,934,711</u>	<u>28,448,448</u>
Expenditures:			
Current:			
General Government	2,065,382	1,997,305	68,077
Health	89,444,491	50,249,500	39,194,991
Capital Outlay	46,600	7,243	39,357
Total Current Expenditures	<u>91,556,473</u>	<u>52,254,048</u>	<u>39,302,425</u>
Excess of Revenues Over Expenditures	5,929,790	73,680,663	67,750,873
Other Financing Sources (Uses):			
Transfers In	500,000	657,000	157,000
Transfers Out	(2,166,704)	(1,883,004)	283,700
Total Other Financing Sources	<u>(1,666,704)</u>	<u>(1,226,004)</u>	<u>440,700</u>
Net Change in Fund Balance	<u><u>4,263,086</u></u>	<u><u>72,454,659</u></u>	<u><u>68,191,573</u></u>
Fund Balance, Beginning of Year		<u>5,011,348</u>	
FUND BALANCE, END OF YEAR		<u><u>77,466,007</u></u>	

The notes to the financial statements are an integral part of this statement.

<u>NUECES COUNTY HOSPITAL DISTRICT</u>			
<u>(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)</u>			
<u>INDIGENT CARE FUND</u>			
<u>STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE</u>			
<u>BUDGET (GAAP BASIS) AND ACTUAL</u>			
<u>YEAR ENDED SEPTEMBER 30, 2013</u>			
	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues -			
Investment Income	21,287	37,644	16,357
Other Financing Sources -			
Transfers In	283,700	--	(283,700)
Total Other Financing Sources	<u>283,700</u>	<u>--</u>	<u>(283,700)</u>
Net Change in Fund Balance	<u>304,987</u>	37,644	<u>(267,343)</u>
Fund Balance, Beginning of Year		<u>27,089,583</u>	
FUND BALANCE, END OF YEAR		<u>27,127,227</u>	

The notes to the financial statements are an integral part of this statement.

NUECES COUNTY HOSPITAL DISTRICT
(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

FIDUCIARY FUNDS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2013

	HEALTH BENEFIT PLAN AND TRUST FUND

ASSETS	
Cash and Cash Equivalents (Note 3)	359,225
Accrued Interest	6
Total Assets	359,231
 LIABILITIES	 ---
 NET POSITION	
Held in Trust for Employee Health Benefits	359,231

The notes to the financial statements are an integral part of this statement.

NUECES COUNTY HOSPITAL DISTRICT
(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2013

	<u>HEALTH BENEFIT PLAN AND TRUST FUND</u>
ADDITIONS	
Interest	89
DEDUCTIONS	
Bank Charges	<u>1,801</u>
Total Deductions	<u>1,801</u>
Net Decrease	(1,712)
Net Position, Beginning of Year	<u>360,943</u>
NET POSITION, END OF YEAR	<u><u>359,231</u></u>

The notes to the financial statements are an integral part of this statement.

NUECES COUNTY HOSPITAL DISTRICT
(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

NOTES TO BASIC FINANCIAL STATEMENTS

SEPTEMBER 30, 2013

Note 1 – REPORTING ENTITY

Nueces County Hospital District (the District), a discretely presented component unit of Nueces County, Texas (the County), was created by an Act of the Legislature of the State of Texas and subsequently approved by the voters of Nueces County, Texas. The District is constitutionally responsible for furnishing medical and hospital care for indigent and needy persons residing in Nueces County.

The District is presented as a discrete component unit of Nueces County, Texas. The District is legally separate from the County, however, members of the District's governing board (the Board) are appointed by the County Commissioners' Court. Although the County neither provides funding to the District, nor holds title to any of the District's assets, nor has any rights to any surpluses of the District, the Commissioners' Court does approve the District's tax rate and annual budget as required by state law.

Beginning in 1996, Christus Spohn Health System (Spohn) leased the District's hospital, Memorial Medical Center (MMC), and its satellite clinics and was responsible for their operations. The lease called for payments to be made over 30 years at which point the operating responsibility of MMC reverts back to the District unless such agreement is extended. As more fully explained in Note 3, effective October 1, 2012 the District's previous agreement with Spohn was renegotiated and the relationship between the District and Spohn is now governed by the Membership Agreement described in Note 3. The subsequent changes were effective for the entire fiscal year and the District now contributes the use of MMC to Spohn and Spohn is responsible for maintaining MMC in return for a share of net patient revenue.

The District's primary mission is to coordinate with Spohn in making available high quality, accessible and cost effective hospital and healthcare services to the indigent and needy residents of Nueces County, consistent with statutory requirements and available resources.

The District has no component units as defined by Governmental Accounting Standards Board. Although the District and County Commissioners' Court appoint three of the members of the Board of Trustees of Spohn as part of the Membership Agreement between the two parties, Spohn does not qualify as a component unit. The District does not approve the budget of Spohn, nor have any rights to surpluses of Spohn. However, under the new Membership Agreement with Spohn, in exchange for the rent free use of MMC the District shares in a portion of Spohn's patient revenue as defined in the agreement.

Additionally, the District serves as the Region 4 Anchor and funds voluntary intergovernmental transfers (IGTs) for certain healthcare providers under the Texas Health and Human Services Commission's Medicaid Section 1115 Demonstration Waiver, (the "Waiver"). This allows Spohn and other Region 4 healthcare providers to participate in supplemental Medicaid funding under the Waiver program.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES – (Continuation)

The District is a special purpose government engaged in a single governmental program, GASB allows the District to combine the required fund financial statements and government-wide statements.

A. Basic Financial Statements

The Basic financial statements include combined government-wide (based on the District as a whole) and fund financial statements.

The Government-wide statements are included in the combined statements of Exhibit 1 and 3 as the Statement of Net Position and Statement of Activities Column. The government-wide statements focus more on the substantiality of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements emphasis is on the major funds which for the District are the general fund and the indigent care fund. Non-major funds are summarized into a single column.

The governmental funds statements in the fund financial statements are presented on a current financial resource and modified accrual basis of accounting. This is the manner in which these funds are normally budgeted. This presentation is deemed most appropriate to (1) demonstrate legal and covenant compliance, (2) demonstrate the source and use of liquid resources, and (3) demonstrate how the District's actual experience conforms to the budget or fiscal plan. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements reconciliation is presented in Exhibit 2 and 4 which briefly explains the adjustment necessary to transform the fund based financial statements columns into the government-wide presentation called the statement of net assets and statement of activities column.

The District's fiduciary fund is presented in the basic financial statement as separate statements. Since by definition these assets are being held for the benefit of a thirty party (employees and former employees) and cannot be used to finance activities or obligations of the government, these funds are not incorporated into the government-wide statements.

B. Basis of Presentation

The financial transactions of the District are recorded in individual funds. Each fund is accounted for by providing a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The various funds are reported by generic classification within the financial statements. The criteria used to determine if a governmental fund should be reported as a major fund are as follows: the total assets, liabilities, revenues or expenditures of that governmental fund are at least 10% of the corresponding element total for all governmental funds. The non-major funds are combined in a single column in the fund financial statement. The District reports the following major funds:

General Fund – The General Fund is the primary operating fund of the District. It is used to account for all financial resources, except those required to be accounted for in another fund.

Indigent Care Fund – Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally or contractually committed to expenditures for specific purposes. They also are used to account for funds that are committed by the Board to be spent for specific purposes.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES – (Continuation)

Additionally, the District reports the following fund type:

Fiduciary Funds – Fiduciary funds are used to account for assets held by the District in a trustee or agency capacity for individuals, private organizations, other governments or funds. These assets are held under the terms of a formal trust agreement. The District has the following fiduciary fund type:

Expendable Trust Fund – An expendable trust fund is used to account for the Health Benefit Plan and Trust. Funds are used to offset employee health insurance premiums. The District is not under an obligation to maintain the trust principal.

C. Basis of Accounting

Basis of accounting refers to the point at which revenues or expenditures/expenses are recognized in the accounts and reported in the financial statements. It relates to the timing of measurements made, regardless of the measurement focus applied. The government-wide financial statements and the fiduciary fund statements are presented on an accrual basis of accounting. The governmental funds in the funds financial statements are presented on a modified accrual basis.

Accrual

Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

Governmental fund financial statements are reported using the current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become measurable and available). “Measurable” means the amount of the transaction can be determined and “available” means collectible within the current period or soon enough thereafter to pay liabilities of the current period.

The District considers property tax revenues available if they are collected within sixty days after year-end. Penalties, interest, and miscellaneous revenues are recorded when received in cash because they are generally not measurable until actually received. Spohn corporate membership revenue and interest income are accrued, when their receipt occurs soon enough after the end of the accounting period to be both measurable and available.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. However, debt service expenditures, except interest payable accrued at the debt issuance date for which cash is received with the debt proceeds, as well as expenditures related to accumulated unpaid paid time off benefits which are recognized when paid.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES – (Continuation)

D. Budgets and Budgetary Accounting

The Board adopts an annual budget for all funds. The annual budget and revisions must be approved by the Board of Managers and then the County Commissioners Court.

E. Cash and Cash Equivalents

Cash and Cash Equivalents include currency on hand, demand deposits with banks and amounts included in pooled cash or liquid investments with a maturity of three months or less when purchased.

F. Investments

Statutes give the District the authority to invest its funds in obligations of the United States; direct obligations of the state of Texas; other obligations guaranteed or insured by the state of Texas or the United States; obligations of states, agencies, counties, or cities of any state that have been rated not less than one or its equivalent by a nationally recognized investment firm; certificates of deposit guaranteed insured or secured by approved obligations; certain commercial paper; fully collateralized repurchase agreements, and Securities & Exchange Commission-registered, no-load money market mutual funds whose assets consist exclusively of approved obligations.

G. Receivables and Payables

Amounts reported in the fund financial statements as interfund receivables and payables are eliminated in the government-wide statement of net assets column of the combined financial statements. Tax receivables are shown net of an allowance for uncollectibles. The property tax receivable allowance is equal to 3% of the annual tax levy. IGTs are not accrued because they cannot be reasonably estimated and are not legal obligations of the District.

H. Capital Assets

All fixed assets are valued at historical cost if purchased or constructed. Donated fixed assets are valued at their estimated fair value on the date donated. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other cost incurred for repairs and maintenance are expensed as incurred. Depreciation on capital assets is calculated on the straight line basis over the following estimated useful lives:

<u>ASSETS</u>	<u>LIFE IN YEARS</u>
Building and Improvements	20-40
Furniture and Equipment	10
Computer Equipment	5

I. Compensated Absences

District employees earn paid time off and sick leave. Paid time off accumulates from year to year up to a maximum of two years accrual. Semi-annually, employees can elect to be paid in lieu of utilizing paid time off at a rate of 80% of time earned. Sick leave accumulates up to a maximum of 1,440 hours. Upon termination of employment, employees may receive pay for their unused paid time off. Sick leave is not convertible to paid time off or additional pay. The cost of paid time off is recognized when earned by employees.

J. Employee Benefit Plans

The District has a 403(b) tax sheltered annuity retirement plan and a deferred compensation plan as described in Note 15. The assets, liabilities, fund equity and operations of this plan are not presented on the District's financial statements as both plans are independently administrated.

K. Fund Balance Classifications

The *nonspendable* fund balance includes the portion of net resources that cannot be spent because of their form or because they must be maintained intact. For the District, resources not in spendable form include prepaid items.

The *committed* fund balance includes spendable net resources that can only be used for specific purposes pursuant to constraints imposed by a formal vote of the Board of Managers no later than the close of the fiscal year. Those constraints remain binding unless removed or changed in the same manner employed to previously commit those resources.

The *assigned* fund balance includes amounts that are constrained by the District's intent to use funds for specific purposes, but are neither restricted nor committed. Such intent should be expressed by the Board of Managers to assign amounts to be used. Constraints imposed on the use of assigned amounts can be removed with no formal Board action. The residual fund balance that is not committed in governmental funds; except the General Fund, is assigned.

The *unassigned* fund balance represents the spendable net resources that have not been restricted, committed, or assigned to specific purposes.

For the classification of Governmental Fund balances, the District considers an expenditure to be made from the most restrictive first when more than one classification is available.

L. RECENT ACCOUNTING PRONOUNCEMENTS

GASB 62 - *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 2009 FASB and AICPA Pronouncements* incorporates into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or after November 30, 1989, which does not conflict with or contradict FASB pronouncements.

- Financial Accounting Standards Boards (FASB) statements and interpretations
- Accounting Principles Board Opinions
- Accounting Research Bulletins of the American Institute of Certified Public Accountants committee on Accounting Procedures

GASB 62 was implemented in the year ended September 30, 2013, and did not have a significant impact on the District's financial statements.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES – (Continuation)

GASB 63 Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Deferred outflows of resources are the consumption of net assets by the government that is applicable to a future reporting period and deferred inflows of resources are the acquisition of net assets by the government that is applicable to a future reporting period. Deferred outflows of resources and deferred inflows of resources are incorporated into the definitions of the required components of the residual measure and that measure is renamed as net position, rather than net assets.

GASB 63 was implemented in the year ended September 30, 2013 resulting in net assets have been renamed as net position.

Note 3 - SPOHN MEMBERSHIP AGREEMENT

Contract Changes

Effective as of October 1, 2012, the District and Spohn completed the renegotiation of their current relationship first entered into in 1996 to amend and terminate the existing Master Agreement, Lease Agreement, and Indigent Care Agreement, and entered into a Spohn Membership Agreement to establish a structure for the joint membership of Spohn with the District. The Spohn Membership Agreement includes (1) provisions stipulating the parameters for the healthcare services that Spohn will continue to provide to the Nueces County indigent residents during the term of the Spohn Membership Agreement, without payment by the District to Spohn for such services, (2) operative provisions and parameters for Spohn's continued use of the District's Memorial Medical Center facilities and satellite clinics during the term of the Spohn Membership Agreement in a manner consistent with the substantive and maintenance provisions in the former Lease Agreement, without payment of rent by Spohn to the District for such use, and (3) a Spohn net patient revenue allocation and sharing arrangement between Spohn and the District, the amount of which is determined each year prior to October 1.

These changes serve multiple purposes including to facilitate (1) continued provision of indigent health care services in Nueces County, (2) Spohn's and other Region 4 healthcare providers' ability to participate in Medicaid supplemental funding under the Waiver based on the providers' achievement of Waiver-related project metrics and milestones and their provision of uncompensated care, to the benefit of the Nueces County indigent residents served by the District and (3) the District's ability to serve as the Region 4 Anchor under the Waiver.

Special Item - Write off of Hospital Receivable

As a result of the changes to the lease agreement, the remaining lease receivable for equipment sold to Spohn and accounted for as a sales-type capital lease in 1996 is now suspended. The remaining receivable balance of \$15,118,214 was written off as a loss on the government-wide statement of activities. On the governmental fund financial statements income from the lease had been deferred so there was no affect on current period revenues or expenditures.

Note 3- SPOHN MEMBERSHIP AGREEMENT - (Continuation)

Annual Member Revenue Allocation

Each year under the new Membership Agreement, Spohn and the District confer regarding the support necessary for the operations of Spohn over the ensuing fiscal year starting October 1. Spohn prepares a budget that contemplates any modifications or additions in cost to provide healthcare services at MMC and the Satellite Clinics. Upon review of the Spohn budget, economic resources of Spohn and the Members and other factors, Spohn and the District agree on a "Specified Annual Percentage", (as defined in the agreement), of Spohn's net patient revenue that the District will receive. Based on this year's estimate the District budgeted \$66,016,620 and received \$90,204,114 in member revenues for the year ended September 30, 2013.

According to management, estimating the Specified Annual Percentage for membership revenue sharing is difficult due to the number of changing factors in the health care system that affect costs, as well as, revenues. Management intends to adjust the membership revenue sharing "Specified Annual Percentage" according to the Spohn Membership Agreement.

Note 4 – CASH AND INVESTMENTS

The District's investment policies and types of investments are governed by the Texas Public Funds Investment Act ("PFIA"). The District's management believes that it has complied with the requirements of the PFIA and the District's investment policies. At September 30, 2013, the District segmented time distribution analysis of the portfolio by market sector is as follows, including the Health Benefit Trust:

	FAIR VALUE	INVESTMENT MATURITIES IN YEARS	
		LESS THAN ONE YEAR	ONE TO THREE YEARS
Cash and Equivalents:			
Collateralized Bank Accounts	613,937	613,937	--
Money Market Mutual Funds	359,225	359,225	--
Petty Cash	150	150	--
AAA-Rated Local Government Investment Pools:			
Texpool	84,681,490	84,681,490	--
Logic	17,297	17,297	--
TexStar	15,050,734	15,050,734	--
Total Cash and Equivalents	100,722,833	100,722,833	--
Investments:			
US Agencies:			
Federal Home Loan Mortgage Corporation	6,001,692	--	6,001,692
Government National Mortgage Association	334	--	334
Total Investments	6,002,026	--	6,002,026
TOTAL VALUE	106,724,859	100,722,833	6,002,026
% of Total Portfolio		94.38%	5.62%

Note 4 – CASH AND INVESTMENTS – (Continuation)

The District's policy is to report money market investments and short-term participating interest earning investment contracts at amortized cost and to report non-participating interest-earning investment contracts using a cost-based measure. However, U.S. Government Agency Securities are reported at fair value based on quoted market values. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value.

Credit Risk

The primary stated objectives of the District's adopted Investment Policy are the safety of principal, liquidity, diversification and yield. Credit risk within the District's portfolio among the authorized investments approved by the District's adopted Investment Policy is present only in time and demand deposits, repurchase agreements, commercial paper, municipal obligations (rated A or better by at least one nationally recognized rating agency (NRSRO)) and AAA rated SEC registered money market mutual funds. All other investments are rated AAA, or equivalent, by at least one nationally recognized rating agency. Investments are made primarily in obligations of the U.S. Government, its agencies or instrumentalities.

State law and the District's adopted Investment Policy restricts both time and demand deposits, including certificates of deposit (CD), to those banks doing business in the State of Texas and further requires full insurance and/or collateralization from these depositories (banks and savings banks). Certificates of deposit are limited to a stated maturity of three years. Collateral, with a 102% margin, is required and collateral is limited to obligations of the U.S. Government, its agencies or instrumentalities. Independent safekeeping is required outside the pledging bank's holding company with monthly reporting. Securities are priced at market on a daily basis as a contractual responsibility of the bank. State law and the District's adopted Investment Policy requires inclusion of a procedure to monitor and act as necessary to changes in credit rating on any investment which requires a rating. State law and the District's adopted Investment Policy also requires a procedure to verify continued FDIC weekly.

State law and the District's adopted Investment Policy restricts investment to AAA rated SEC registered money market mutual funds striving to maintain a \$1 net asset value as further defined by state law.

Local government investment pools in Texas are required to be rated AAA, or equivalent, by at least one nationally recognized rating agency. The District's adopted investment policy further restricts investments to AAA-rated, "2a-7 like" (constant dollar) local government investment pools.

Concentration of Credit Risk

The District recognizes over-concentration of assets by market sector or maturity as a risk to the portfolio. The District's adopted Investment Policy establishes diversification as a major objective of the investment program.

As of September 30, 2013, holdings in US Government securities with ratings of AAA represented 5.62% of the total portfolio. Investment in the State Treasurer's local government investment pool, Texpool, represented 79.35% of the total portfolio. Investment in a second local government investment pool, LOGIC, represented .02% of the total portfolio. Investment in a third local government investment pool, TexStar, represented 14.09% of the total portfolio. Holdings in a AAA-rated money market mutual fund represented .34% of the total portfolio. The remaining .58 % of the portfolio is invested in FDIC insured or fully collateralized bank deposits.

Note 4 – CASH AND INVESTMENTS – (Continuation)

Interest Rate Risk

In order to limit interest and market rate risk from changes in interest rates, the District's adopted Investment Policy sets a maximum stated maturity date of three years and at least 33% of the District's investments shall be obligations of the U.S. Government. To insure liquidity a minimum of 10% shall be liquid. The maximum weighted average maturity (WAM) of twelve (12) months. A segmented time distribution analysis of the portfolio is shown above.

As of September 30, 2013, the portfolio contained three holdings in the portfolio with stated maturity dates beyond one year representing 5.62 % of the total portfolio, and the weighted average of the combined portfolio was 35 days.

As of September 30, 2013, the portfolio contained one non-callable Federal Home Loan Mortgage Corporation (FHLMC) note with a current market value of \$3,000,804, coupon rate of .35%, maturing March 18, 2015. Additionally, the District has one callable FHLMC note with a current market value of \$3,000,888, coupon rate of .50%, maturing July 30, 2015 and one Government National Mortgage Association (GNMA) pass through mortgage backed note with an original par value of \$100,000 and current market value of \$334 and a coupon rate of 9%. The GNMA note was purchased October 1, 1986, matures on October 15, 2016; however the final payment is expected as of July 15, 2015.

Custodial Credit Risk

To control custody and safekeeping risk State law and the District's adopted Investment Policy requires collateral for all time and demand deposits, as well as collateral for repurchase agreements, be transferred delivery versus payment and held by an independent party approved by the District and held in the District's name. The custodian is required to provide original safekeeping receipts and monthly reporting of positions with position descriptions including market value. Repurchase agreements and deposits must be collateralized to 102% and be executed under written agreements. Depository agreements are executed under the terms of U.S. Financial Institutions Resource and Recovery Enforcement Act (FIRREA). The counter-party of each type transaction is held contractually liable for monitoring and maintaining the required collateral margins on a daily basis.

As of September 30, 2013, the portfolio contained no certificates of deposit and no repurchase agreements. All bank demand deposits were fully collateralized. All pledged bank collateral for demand deposits was held by an independent institution outside the bank's holding company.

Note 5 – HOSPITAL LEASE

As more fully described in Note 3, effective October 1, 2012, the District's lease of the hospital and clinic real estate and equipment to Spohn was renegotiated. The capital lease amounting to \$22,174,405 was related to the working capital and equipment and had been accounted for as a sales-type lease. As more fully described in Note 3, *Special Item - Write Off of Hospital Receivable*, beginning on October 1, 2012, the remaining balances on the lease have been canceled (unless reinstated) per the new agreement with Spohn. A receivable of \$15,118,214 was written off on the sales-type portion of the lease as the result of the new contract.

Note 6 – PROPERTY TAXES

The Commissioners’ Court of Nueces County levies for the District, a tax as provided under state law on properties within the District. These taxes are collected by the Nueces County Tax Assessor-Collector and are remitted to the District when received. The Nueces County Appraisal District establishes appraised values.

Property taxes are considered available when collected within the current year. Property taxes attach as an enforceable lien on property as of January 1. Taxes are due upon receipt of the tax bill and are past due and subject to interest if not paid before February 1 of the year following the October 1 levy date. Taxes are delinquent if not paid by June 30. Delinquent taxes are subject to both penalty and interest charges as well as attorney costs. The assessed value of the roll on January 1, 2012 upon which the levy for the 2013 fiscal year was based was \$19,973,906,468.

The tax rate assessed for the year ended September 30, 2013 to finance general fund operations and the limited tax refunding bonds was \$0.162428 per \$100 valuation. Current tax collections for the year ended September 30, 2013 were 97% of the year-end adjusted tax.

Note 7 – DELINQUENT TAXES RECEIVABLE

The following table shows a schedule of delinquent taxes receivable and the allowance for uncollectible taxes for the District.

	<u>BALANCE OCTOBER 1, 2012</u>	<u>CURRENT YEAR LEVY</u>	<u>TOTAL COLLECTIONS</u>	<u>ADJUSTMENTS</u>	<u>BALANCE SEPTEMBER 30, 2013</u>
Delinquent Taxes Receivable	1,915,053	32,624,036	32,272,032	(360,626)	1,906,431
Allowance for Uncollectible Taxes	<u>(941,441)</u>	--	--	<u>(37,280)</u>	<u>(978,721)</u>
NET DELINQUENT TAX RECEIVABLE	<u>973,612</u>	<u>32,624,036</u>	<u>32,272,032</u>	<u>(397,906)</u>	<u>927,710</u>

Note 8 – CAPITAL ASSETS

A summary of changes in the capital assets follows:

	BALANCE, OCTOBER 1, <u>2012</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	BALANCE, SEPTEMBER <u>30, 2013</u>
Capital Assets, Not Being Depreciated-				
Land	3,076,926	--	--	3,076,926
Capital Assets, Being Depreciated:				
Equipment	1,326,961	7,243	28,031	1,306,173
Buildings	28,073,023	--	--	28,073,023
Total Capital Assets, Being Depreciated	29,399,984	7,243	28,031	29,379,196
Less Accumulated Depreciation for				
Equipment	977,879	82,480	27,008	1,033,351
Buildings	21,730,852	412,157	--	22,143,009
Total Accumulated Depreciation	22,708,730	494,637	27,008	23,176,360
Total Capital Assets, Being Depreciated, Net	6,691,253	(487,394)	1,023	6,202,836
TOTAL CAPITAL ASSETS, NET	9,768,179	(487,394)	1,023	9,279,762

Note 9 – DEFERRED REVENUES

Deferred Revenue balances at September 30, 2013 consist of property taxes of \$927,710.

Note 10 – LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions of the District for the year ended September 30, 2013:

	BALANCE, OCTOBER 1, 2012	ADDITIONS	REDUCTIONS	BALANCE, SEPTEMBER 30, 2013	DUE WITHIN ONE YEAR
Bonds:					
Limited Tax Refunding					
Bonds Series 2003	5,230,000	--	1,675,000	3,555,000	1,740,000
Premium	(236)	--	120	(116)	--
Deferred Loss on Refunding					
Refunding	(29,176)	--	14,952	(14,224)	--
Total Bonds	5,200,588	--	1,690,072	3,540,660	1,740,000
Other Liabilities-					
Accrued Paid Time Off	71,237	150,762	148,826	73,173	--
TOTAL	5,271,825	150,762	1,838,898	3,613,833	1,740,000

The limited tax refunding bonds are collateralized by ad valorem taxes issued on all property located within the District. The limited tax refunding bonds mature in varying amounts through the year 2015 and are callable to redemption prior to maturity beginning in 2013. Interest is payable semiannually and accrues at rates ranging from 2.0% to 4.1%.

The bond covenants do not require a separate sinking fund. However, the District has an assigned cash account for making debt payments. The balance of this account is \$473,423 at September 30, 2013. The District had sufficient cash and cash equivalents at year end to cover current maturities of bonds payable.

Aggregate maturities of the limited tax refunding bonds for each of the next five years and in the aggregate are as follows:

	REQUIREMENTS		
	PRINCIPAL	INTEREST	TOTAL
For the Year Ended September 30,:			
2014	1,740,000	144,015	1,884,015
2015	1,815,000	74,415	1,889,415
TOTAL	3,555,000	218,430	3,773,430

Note 11 - OPERATING LEASES

The District leases office space for its administrative offices under an operating lease expiring in 2018. Minimum future rental payments under non-cancelable operating leases having remaining terms in excess of one year as of September 30, 2013 for each of the next five years and in the aggregate are:

Year Ended September 30,:	
2014	126,440
2015	128,685
2016	130,929
2017	133,174
2018	<u>89,780</u>
TOTAL	<u><u>609,008</u></u>

Rental payments under all operating leases amounted to \$119,707 during the year ended September 30, 2013.

Note 12- INTERGOVERNMENTAL TRANSFERS (IGTs)

The District began participation in the newly developed and State sponsored Waiver program during the year ended September 30, 2013. The District provides IGT's for certain healthcare providers in Region 4 so they can participate in Medicaid supplemental funding available under the Waiver. The Texas Health and Human Service Commission (HHSC) calculates the amount of IGT needed by each provider and determines timing of the payments to providers. HHSC encountered numerous delays in the processing of IGT's for the year ended September 30, 2013. Therefore, of the District's budgeted \$81,722,424 for IGT's, the District only paid \$42,659,218 in IGT's in the current fiscal year.

Additionally, IGTs are not accrued as liabilities by the District on the government-wide financial statements because of the following factors:

- There is no legal obligation for the District to remit IGTs to HHSC;
- The amount to pay cannot be reasonably estimated

In subsequent years, if the amount can be reasonably estimated, IGT's may be accrued if necessary.

Note 13- COMMITTED FUND BALANCE

As shown in the fund financial statements on August 27, 2013, the Board of Mangers approved a resolution committing \$68,500,000 in the District's general fund balance to anticipated additional expenditures for IGTs arising from the District's participation in the Waiver during the year ended September 30, 2013.

Funds included in the Indigent Care Fund of \$27,127,227 are committed to be used for indigent health care.

Note 14 – INTERFUND TRANSACTIONS AND BALANCES

Interfund transfers during the year ended September 30, 2013 were as follows:

	TRANSFERS OUT			TOTAL
	GENERAL FUND	INDIGENT CARE FUND	TOBACCO SETTLEMENT FUND	
<u>TRANSFERS IN</u>				
General Fund	--	--	657,000	657,000
Debt Service Fund	1,883,004	--	--	1,883,004
TOTAL	1,883,004	--	657,000	2,540,004

The transfer to the Debt Service Fund from the General Fund was for payment of Debt Service related to the bonds.

Note 15 – EMPLOYEE BENEFIT PLANS

Retirement Plan

The District maintains a single-employer, defined contribution retirement plan available to all employees. The Plan is a tax-qualified plan pursuant to section 403(b) of the Internal Revenue Code. All full-time employees are eligible for participation in the plan. As of September 30, 2013, twenty-four employees were enrolled in the plan.

The Plan is administrated by an outside party. Employees can contribute a percentage of their compensation as permitted by the Internal Revenue Code Section 403(b). The District can make a discretionary matching contribution ranging from 5% to 7% of the employee’s earnings, based on tenure. The vesting schedule provides for employees to be 100% vested in their contributions. The District’s contributions are vested at a rate of 20% per year of employment. The plan permits employees to borrow from the plan and the related administration cost thereof shall be borne by the employee participant. The normal retirement age has been designated as 65 years of age. During the year ended September 30, 2013, the District had retirement plan expense of \$65,760.

Deferred Compensation Plan

The District has a deferred compensation agreement with a key employee which allows the employee to defer a percentage of his annual compensation to future periods as permitted by the Internal Revenue Code. The Plan is administrated by an outside party.

Note 16 - BUDGETARY DATA

Budget variances to expenditures in the general fund include, among other things, the following:

The health budget includes amounts paid to consultants used to assist management in the development of a community Regional Health Partnership and Delivery System Reform Incentive Payments (DSRIP) plan to meet the requirements of the HHSC Section 1115 Waiver program. The District budgeted \$80,000 for the consultants based on the initial contract; however, as the details of the Waiver law became available, the contract was amended along with the scope of work for the consultants. The actual expenditure for the consultants was \$578,171, a variance of \$498,171 with the budget.

The budget for IGTs was \$81,722,424 based on anticipated IGT billings received from HHSC. As more fully described in Note 12, due to delays in the HHSCs processing only \$42,659,218 was expended for IGTs a variance of \$39,063,206 with the budget.

Combining Schedules

NUECES COUNTY HOSPITAL DISTRICT
(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS

SEPTEMBER 30, 2013

ASSETS	<u>SPECIAL REVENUE TOBACCO SETTLEMENT FUND</u>	<u>DEBT SERVICE FUND</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
Cash and Cash Equivalents	642	473,423	474,065
TOTAL ASSETS	<u>642</u>	<u>473,423</u>	<u>474,065</u>
LIABILITIES AND FUND BALANCE			
Current Liabilities-			
Accrued Interest	--	36,004	36,004
Fund Balance:			
Assigned to:			
County Health Care	642	--	642
Debt Service	--	437,419	437,419
Total Fund Balance	<u>642</u>	<u>437,419</u>	<u>438,061</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>642</u>	<u>473,423</u>	<u>474,065</u>

NUECES COUNTY HOSPITAL DISTRICT
(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS
YEAR ENDED SEPTEMBER 30, 2013

	<u>SPECIAL REVENUE TOBACCO SETTLEMENT FUND</u>	<u>DEBT SERVICE FUND</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
Revenues:			
Tobacco Settlement	656,850	--	656,850
Investment Income	44	913	957
Total Revenues	<u>656,894</u>	<u>913</u>	<u>657,807</u>
Debt Service:			
Principal Retirement	--	1,675,000	1,675,000
Interest and Fiscal Charges	--	191,754	191,754
Payment to Escrow Agent	--	300	300
Total Expenditures	<u>--</u>	<u>1,867,054</u>	<u>1,867,054</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	656,894	(1,866,141)	(1,209,247)
Other Financing Sources (Uses):			
Transfers In	--	1,883,004	1,883,004
Transfers Out	(657,000)	--	(657,000)
Total Other Financing Sources (Uses)	<u>(657,000)</u>	<u>1,883,004</u>	<u>1,226,004</u>
Net Change in Fund Balance	(106)	16,863	16,757
Fund Balance, Beginning of Year	<u>748</u>	<u>420,556</u>	<u>421,304</u>
FUND BALANCE, END OF YEAR	<u><u>642</u></u>	<u><u>437,419</u></u>	<u><u>438,061</u></u>

Budget Comparisons

NUECES COUNTY HOSPITAL DISTRICT**(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)****GENERAL FUND****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****BUDGET (GAAP BASIS) AND ACTUAL****YEAR ENDED SEPTEMBER 30, 2013**

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues:			
Taxes	31,149,540	31,930,915	781,375
Penalties and Interest - Taxes	304,641	373,660	69,019
Spohn Corporate Membership Revenue	66,016,619	90,204,114	24,187,495
Investment Income	15,463	44,447	28,984
Other	--	3,381,575	3,381,575
Total Revenues	<u>97,486,263</u>	<u>125,934,711</u>	<u>28,448,448</u>
Expenditures:			
Current:			
General Government:			
Administration:			
Personal Services	609,557	580,713	28,844
Materials and Supplies	37,095	35,228	1,867
Contractual Services	1,236,774	1,221,904	14,870
Other	180,056	158,581	21,475
Total Administration	<u>2,063,482</u>	<u>1,996,426</u>	<u>67,056</u>
Facilities Management -			
Materials and Supplies	1,900	879	1,021
Total General Government	<u>2,065,382</u>	<u>1,997,305</u>	<u>68,077</u>
Health:			
Personal Services	1,262,288	1,126,920	135,368
Materials and Supplies	36,900	29,874	7,026
Contractual Services	519,480	920,776	(401,296)
Intergovernmental Transfers	81,722,424	42,659,218	39,063,206
City and County Services	5,889,999	5,508,298	381,701
Other	13,400	4,414	8,986
Total Health	<u>89,444,491</u>	<u>50,249,500</u>	<u>39,194,991</u>
Capital Outlay	46,600	7,243	39,357
Total Current Expenditures	<u>91,556,473</u>	<u>52,254,048</u>	<u>39,302,425</u>
Excess of Revenues Over Expenditures	5,929,790	73,680,663	67,750,873
Other Financing Sources (Uses):			
Transfers In	500,000	657,000	157,000
Transfers Out	(2,166,704)	(1,883,004)	283,700
Total Other Financing Sources	<u>(1,666,704)</u>	<u>(1,226,004)</u>	<u>440,700</u>
Net Change in Fund Balance	<u>4,263,086</u>	<u>72,454,659</u>	<u>68,191,573</u>
Fund Balance, Beginning of Year		<u>5,011,348</u>	
FUND BALANCE, END OF YEAR		<u>77,466,007</u>	

NUECES COUNTY HOSPITAL DISTRICT**(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)****INDIGENT CARE FUND****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**
BUDGET (GAAP BASIS) AND ACTUAL**YEAR ENDED SEPTEMBER 30, 2013**

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues -			
Investment Income	21,287	37,644	16,357
Total Revenues	<u>21,287</u>	<u>37,644</u>	<u>16,357</u>
Other Financing Sources -			
Transfers In	283,700	--	(283,700)
Total Other Financing Sources	<u>283,700</u>	<u>--</u>	<u>(283,700)</u>
Net Change in Fund Balance	<u>304,987</u>	37,644	<u>(267,343)</u>
Fund Balance, Beginning of Year		<u>27,089,583</u>	
FUND BALANCE, END OF YEAR		<u>27,127,227</u>	

NUECES COUNTY HOSPITAL DISTRICT**(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)****TOBACCO SETTLEMENT FUND****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**
BUDGET (GAAP BASIS) AND ACTUAL**YEAR ENDED SEPTEMBER 30, 2013**

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues:			
Tobacco Settlement	500,000	656,850	156,850
Investment Income	--	44	44
Total Revenues	<u>500,000</u>	<u>656,894</u>	<u>156,894</u>
Other Financing Uses -			
Transfers Out	<u>(500,000)</u>	<u>(657,000)</u>	<u>(157,000)</u>
Total Other Financing Uses	<u>(500,000)</u>	<u>(657,000)</u>	<u>(157,000)</u>
Net Change in Fund Balance	<u> --</u>	<u> (106)</u>	<u> (106)</u>
Fund Balance, Beginning of Year		<u> 748</u>	
FUND BALANCE, END OF YEAR		<u> 642</u>	

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NUECES COUNTY HOSPITAL DISTRICT
(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

DEBT SERVICE FUND

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

YEAR ENDED SEPTEMBER 30, 2013

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues - Interest	758	913	155
Expenditures:			
Principal	1,675,000	1,675,000	--
Interest and Fiscal Charges	191,760	191,754	6
Payment to Escrow Agent	500	300	200
Total Expenditures	<u>1,867,260</u>	<u>1,867,054</u>	<u>206</u>
Deficiency of Revenues Over Expenditures	(1,866,502)	(1,866,141)	361
Other Financing Sources - Operating Transfers In	<u>1,883,004</u>	<u>1,883,004</u>	<u>--</u>
Net Change in Fund Balance	<u>16,502</u>	16,863	<u>361</u>
Fund Balance, Beginning of Year		<u>420,556</u>	
FUND BALANCE, END OF YEAR		<u>437,419</u>	

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

February 5, 2014

The Board of Managers
Nueces County Hospital District
Corpus Christi, Texas

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the governmental activities, each major fund, and the aggregate remaining fund information of the Nueces County Hospital District, a component unit of Nueces County, Texas, as of and for the year ended September 30, 2013, which collectively comprise the District's basic financial statements as listed in the table of contents and have issued our report thereon dated February 5, 2014.

Internal Control Over Financial Reporting

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Collier, Johnson & Woods