

NUECES COUNTY HOSPITAL DISTRICT

ANNUAL FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2006

NUECES COUNTY HOSPITAL DISTRICT
AUDITED FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2006

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NUECES COUNTY HOSPITAL DISTRICT
AUDITED FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2006

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INDEPENDENT AUDITOR'S REPORT

November 22, 2006

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

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, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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, 2006, 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 conformity with accounting principles generally accepted in the United States of America.

In accordance with *Governmental Auditing Standards*, we have also issued our report dated November 22, 2006 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.

The management's discussion and analysis, on pages 3 through 12 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was made for the purpose of forming an opinion on the financial statements that collectively comprise the Districts basic financial statements. The combining financial statements and the and budgetary comparison information, listed in the table of contents on pages 42 through 51 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.

Collier, Johnson & Woods

**Nueces County Hospital District
Management's Discussion and Analysis (MD&A)
For Fiscal Year Ended September 30, 2006**

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 the fiscal year ended September 30, 2006. Since the focus of the MD&A is on current fiscal year'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.

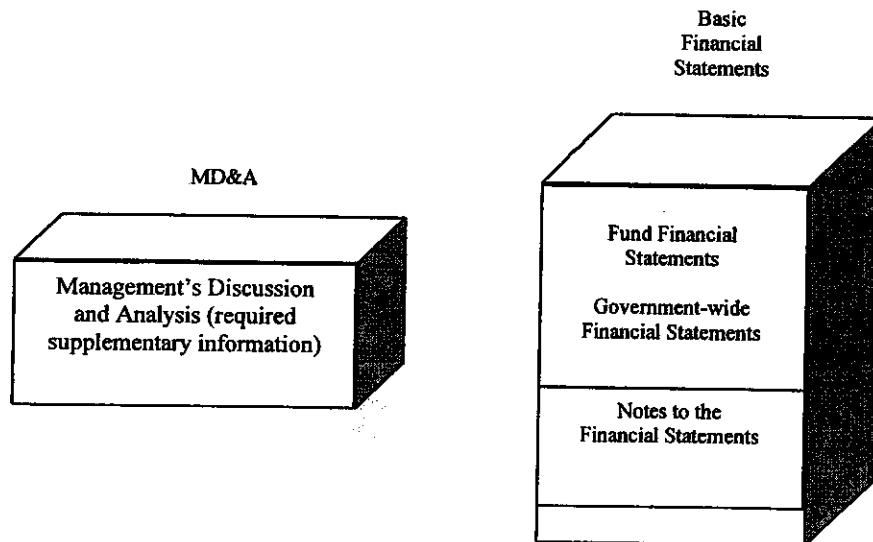
Financial Highlights

Fiscal year-end September 30, 2006 marked the beginning of a planned effort to reduce the District's reserves. At fiscal year end September 30, 2006, the District's General Fund balance amounted to \$4.604 million compared to \$6.690 million in 2005, a 31.2% decrease. This decrease resulted primarily from the County Commissioners Court's reduction of the District's tax rate and an increase in funding to the District's indigent care provider for County jail healthcare services. Following the recommendations of the District's bond rating agencies, the District's Board of Managers adopted a resolution that maintains the General Fund balance at an amount equal to at least 10% of the District's final fiscal year-end expenditures. In fiscal year 2006, an aggregate amount of \$1.6 million was transferred from the District's Indigent Care Fund to its General Fund to maintain that balance. In fiscal year 2006, the District's annual bond debt requirement was \$1.839 million compared to \$1.870 million in 2005, a 1.7% reduction. See Table A-5 for additional information relating to the District's long-term debt.

The assets of the District exceeded its liabilities on September 30, 2006 and 2005 by \$78.090 million and \$78.619 million, respectively. Cash and investments amounted to \$65.256 million and \$66.718 million which represent 77% of total assets for September 30, 2006 and 2005 respectively.

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 a series of these MD&As, 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. The Statement of Net Assets 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. Since the District leased Memorial to Christus Spohn Health System, this fund is presently used to assist the 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 Assets (Government-Wide)

The District's total net assets were \$78.090 million and \$78.619 million as of September 30, 2006 and 2005, respectively, a decrease of \$529 thousand or 0.7%. Total assets decreased \$1.301 million or 1.4% compared to September 30, 2005. Total liabilities decreased \$772 thousand or 4.4% compared to September 30, 2005.

TABLE A-1
Nueces County Hospital District Net Assets
Years Ended September 30, 2005 Through 2006
(In Thousands)

	<u>2006</u>	<u>2005</u>	<u>2006-2005</u> <u>Variance</u>
Assets:			
Cash and Cash Equivalents	\$52,366	\$56,587	(\$4,221)
Investments	12,890	10,131	2,759
Other Assets	19,924	20,331	(407)
Capital Assets (Net of Accumulated Depreciation)	9,598	9,030	568
Total Assets	<u>94,778</u>	<u>96,079</u>	<u>(1,301)</u>
Liabilities:			
Accounts Payable	2,480	1,906	574
Accrued Payroll and Related Liabilities	41	30	11
Accrued Interest	122	129	(7)
Long-Term Liabilities:			
Due Within One Year	1,451	1,334	117
Due in More Than One Year	12,594	14,061	(1,467)
Total Liabilities	<u>16,688</u>	<u>17,460</u>	<u>(772)</u>
Net Assets:			
Invested in Capital Assets	9,598	9,030	568
Unrestricted	68,492	69,589	(1,097)
Total Net Assets	<u>\$78,090</u>	<u>\$78,619</u>	<u>\$ (529)</u>

Management's Discussions

In fiscal year 2006, the \$1.462 million or 2.2% net decrease in Cash and Cash Equivalents and Investments combined is the result of lower property tax revenues and increased expenditures in jail healthcare services. The \$407 thousand or 2% decrease in Other Assets relates to reductions in certain receivables. The \$568 thousand or 6.3% increase in Capital Assets (Net of Accumulated Depreciation) relates to final addition of assets associated with the new Westside Neighbor Care Center completed in February 2006. The \$573 thousand or 30.1% increase in Accounts Payable is the result of delayed County invoicing for healthcare services expenses and accrual of jail healthcare services expenses.

Statement of Activities (Government-Wide)

TABLE A-2
Changes in Nueces County Hospital District Net Assets
Years Ended September 30, 2004 Through 2006
(In Thousands)

	<u>2006</u>	<u>2005</u>	<u>2006-2005</u> <u>Variance</u>
Revenues:			
Property Taxes and Penalties and Interest	\$ 24,392	\$ 28,299	\$ (3,907)
Spohn Lease Payments	3,368	3,368	-
Investment Income	4,666	3,193	1,473
Medicare Recoveries	-	-	-
Tobacco Proceeds	1,401	913	488
Gain on Sale of Land	-	1,079	(1,079)
Gain on Closure of Self Insurance Funds	188	-	188
Other	56	152	(96)
Total Revenues	<u>34,071</u>	<u>37,004</u>	<u>(2,933)</u>
Expenses:			
General Government	1,606	1,590	16
Health	31,799	29,631	2,168
Depreciation	613	644	(31)
Total Expenses	<u>34,018</u>	<u>31,865</u>	<u>2,153</u>
Debt Service-			
Interest and Fiscal Charges	<u>582</u>	<u>612</u>	<u>(30)</u>
Excess of Revenues Over (Under)			
Expenditures	<u>\$ (529)</u>	<u>4,527</u>	<u>(5,056)</u>
Fund Balance/Net Assets, Beginning of Year	<u>78,619</u>	<u>74,092</u>	<u>4,527</u>
FUND BALANCE, NET ASSETS,			
END OF YEAR	<u><u>\$ 78,090</u></u>	<u><u>\$ 78,619</u></u>	<u><u>\$ (529)</u></u>

FINANCIAL ANALYSIS

Revenues

In fiscal year 2006, the District's total revenues decreased \$2.933 million or 8% compared to prior year. There are four principal sources of revenue for the District. The first and primary source is from taxes levied on Nueces County property owners based on assessed valuations. These ad valorem tax revenues decreased by \$3.907 million or 13.8% and accounted for 71.7% of total revenues compared to 76.5% in the prior year. The decrease in these tax revenues is attributable to the lower District tax rate set by County Commissioners Court. The District's tax rate during 2006 was \$0.17490300 per \$100 valuation compared \$0.22522598 in the prior year, a reduction of 22.3%. The tax rate was reduced to draw down the District's reserves. The second source of revenue is lease income from Christus Spohn Health System for its lease of the District's hospital, clinics and related equipment. The lease payment is an annual fixed payment (including interest income) of \$5,068,932. This lease-related revenue accounted for 9.9% of total District revenue compared to 9.1% in the prior year. The third source is Investment Income which increased \$1.473 million or 46.1% from improved interest rates compared to prior year. The fourth source is Tobacco Settlement reimbursements from the State of Texas' tobacco litigation which increased by \$488 thousand or 53.5% compared to prior year as the result of higher District claims and improved interest rates. An additional revenue source is the Gain on Closure of Self Insurance Funds which relate to closing of certain residual hospital related liabilities from prior to 1996 which are no longer active. An additional revenue source is Prior Year's Medicare Recoveries which relate to appeals and subsequent settlement of Medicare Cost Reports associated with the District's hospital for fiscal years prior to the lease. Generally, Cost Report recoveries were completed in fiscal year 2004. However, certain appeals are ongoing and additional recoveries are possible.

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

	<u>2006</u>	<u>2005</u>	<u>2006-2005</u> <u>Variance</u>
Eligibility	\$ 1,168	\$ 1,118	\$ 50
Indigent Care Programs	25,623	24,672	951
County Healthcare Expenditures	4,746	3,501	1,245
Administration and General	1,868	1,930	(62)
Depreciation	613	644	(31)
TOTAL	<u>\$ 34,018</u>	<u>\$ 31,865</u>	<u>\$ 2,153</u>

Net Costs

The net cost of the District's functions in fiscal year 2006 increased \$2.153 million or 6.8% compared to prior year. The two most important costs of the District are Indigent Care Programs and County Healthcare Expenditures. The largest amount of the District's cost is Indigent Care Programs which relates to its provision of statutorily required indigent medical aid and hospital care performed through District's Indigent Care Agreement with Christus Spohn Health System. This cost increased \$921 thousand or 3.7% in 2006 compared to prior year as the result of inflation-related payment increases mandated by the Agreement. Indigent Care Program costs represented 75.3% of all net costs in 2006 compared to 77.4% in the prior year. The second largest amount of cost is \$4.746 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 salaries and benefits for County employees at the City/County Health Department, match and other subsidies for the local mental health/mental retardation center, subsidies for emergency medical services and overhead costs associated with operation of the County Jail's infirmary. This cost increased \$1.245 million or 35.6% in 2006 compared to prior year due to increased payments for jail healthcare services. County Healthcare Expenditure costs represented 14% of all the District's net costs in 2006 compared to 11% in the prior year. The two other costs of the District are Administrative and General and Eligibility costs. Collectively, these costs decreased \$12 thousand or 0.4% during 2006 compared to prior year. These are costs incurred in operating the District and its carrying out of certain statutorily required and related functions, administration, and support. The major costs for this are salaries and benefits, legal fees, consulting fees, rents, supplies, and purchased services. Administrative and General Costs represented 5.5% of all net costs in 2006 compared to 6.1% in prior year. Eligibility costs represented 3.4% of all net costs in 2006 compared to 3.5% in prior year.

General Fund Budgetary Highlights

Expectations for the District's General Fund budget were surpassed during fiscal year 2006.

Revenues

Revenues exceeded budget by \$515,740. Of the excess revenues, \$300,000 was related to collections of ad valorem taxes, penalties and interest. Investment income exceeded budget by about \$200,000.

Expenditures

Expenditures were less than budget by \$1,696,605. Of the expenditures less than budget, \$1.1 million is associated with County Healthcare Expenditures. This relates to unspent funds for the City/County Health Department and the partial implementation of the diabetes screening and education project during the 2006 fiscal year. The District's salaries were less than budget by \$145,000, due to a mid-year modification in the District's organizational and management structure. Legal & Professional Fees and Purchased Services were also less than budget. This relates to a decrease in claims management activities in the indigent care program and reductions in County Tax Assessor-Collector and Appraisal District fees. The decreased fees for the Assessor-Collector and Appraisal District relate to the decreased tax revenues. The decreased claims management costs are related to the decreased number of Medicare beneficiaries participating in the District's indigent care drug prescription program during the fiscal year. This enrollment decrease resulted from implementation of the federal Medicare prescription benefit in January 2006.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District had \$9,598,000 in capital assets at the end of September 30, 2006. The breakdown of the capital assets is as follows:

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

	<u>2006</u>	<u>2005</u>	<u>2006-2005</u> <u>Variance</u>
Land	\$ 2,814	\$ 2,814	\$ --
Buildings and Improvements	24,991	22,258	2,733
Equipment	967	763	204
Construction in Progress	174	1,931	(1,757)
Total	<u>28,946</u>	<u>27,766</u>	<u>1,180</u>
Less: Accumulated Depreciation	<u>19,348</u>	<u>18,735</u>	<u>613</u>
NET CAPITAL ASSETS	<u>\$ 9,598</u>	<u>\$ 9,031</u>	<u>\$ 567</u>

Since initiation of the District's Lease Agreement with Christus Spohn on October 1, 1996, the District has not purchased any equipment or made any improvements to the hospital, clinics or equipment leased to Christus Spohn Health System. Under terms of the Agreement, Christus Spohn is responsible for upkeep of the leased buildings and equipment, and the purchase of any medical and other equipment needed at those facilities during the Lease term. The Agreement now requires Christus Spohn to spend an average of \$6 million a year for upkeep of the hospital and clinics and to purchase equipment. An amendment to the Agreement in late 2005 increased Christus Spohn's commitment from \$3 million, on average to \$6 million from that point forward.

During the year, the District purchased capital assets to provide upgraded technology at both its Enrollment and Administrative offices. In fiscal year 2006, the District's General Fund capital expenditures amounted to \$73,968.

The District completed construction of the permanent Westside Neighbor Care Center in February 2006, subsequently transferring those costs from Construction in Progress to its respective capital asset category. Previously, in December 2003, the District's Board of Managers approved the permanent Center and budgeted \$2.8 million for the project, inclusive of land acquisition, real estate development, construction, and limited furnishings. Since opening, the Center now operates under the District's current lease agreement with Christus Spohn.

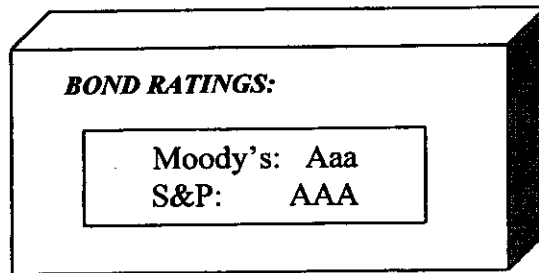
Activity for the current Construction in Progress category relates to the development of a Replacement Robstown Neighbor Care Center, for which the District's Board of Managers has budgeted \$4.399 million. The land for the Replacement Center's site was purchased in November 2006, and the project's estimated completion is about February 2008.

Long-Term Debt

TABLE A-5
Nueces County Hospital District's Long-Term Debt

	<u>2006</u>	<u>2005</u>	<u>2006-2005</u> <u>Variance</u>
Bonds Payable	\$ 14,014	\$ 15,339	\$ (1,325)
Self-Insurance	--	168	(168)
Accrued Paid Time Off	32	56	(24)
NET LONG-TERM DEBT	<u>\$ 14,046</u>	<u>\$ 15,563</u>	<u>(\$1,517)</u>

The Bonds Payable mature on July 1, 2015. Interest rates associated with the District's long-term bond debt escalate from 2% (2003) to 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.



For more information on the District's debt see the notes in the financial statements.

Economic Factors, Next Year's Budget, and Tax Rates

Economic Factors

The Hospital District's property valuation continues to increase at a steady rate. As a result of this reliable growth coupled with the District's reserves and related investment income, the District has not increased its tax rate in several years and County Commissioners Court was able to decrease the rate considerably in its fiscal-year-end 2007 budget.

According to the recent data, from 2006 to 2011, Nueces County's total population is projected to increase from 319,260 to 324,117 (+1.5%) and total households are projected to increase from 112,201 to 113,731 (+1.4%). For the same period, average household income is projected to increase from \$51,715 to \$55,958 (+8.2%); median household income is projected to increase from \$40,821 to \$44,969 (+10.2%) and per capita income is projected to increase from \$18,867 to \$20,414 (+8.2%); total housing units are projected to increase from 130,062 to 135,913 (+4.5%); average vehicles per household are projected to increase from 1.7 to 1.9 (+5.9%). For the same period, educational attainment to the high graduate level are projected to increase from 57,093 to 64,233 (+12.5%); educational attainment to the Associates Degree level are projected to increase from 14,228 to 16,968 (+19.3%); educational attainment to the Bachelor's Degree level are projected to increase from 25,594 to 27,710 (+8.3%); and educational attainment to the Graduate Degree level are projected to increase from 14,943 to 16,446 (+10.1%).

Next Year's Budget

For the District's upcoming fiscal year ending September 30, 2007, the District's Board of Managers and County Commissioner's Court approved a District operating budget wherein expenses exceed revenues by \$6,850,996. The operating deficit will be funded with transfers from the District's current Indigent Care Fund reserves. By consensus of the District's Board and County Commissioners Court, the budget deficit was purposely shaped to reduce the District's reserves to a lower level thereby reducing the burden of the District on the local taxpayers.

During fiscal year 2007, the District's budgeted operating expenditures will increase \$2.2 million or 6.6% compared to fiscal year 2006. Under terms of the District's Indigent Care Agreement with Christus Spohn Health System, the District's indigent care payments to Christus will increase by \$1,140,000. In accordance with the Agreement, the District's payments to Christus Spohn increase annually based on the average of the prior year's increases in both the Consumer Price Index/All Urban Consumers and the Global Insight Hospital Market Basket Index. For calendar year 2006, the average increase was 4.52%, thus increasing the District's payments to Christus Spohn by the amount above. The District's County Healthcare Expenditures will increase by \$450,000 primarily for jail healthcare services provided by Christus Spohn. Salaries and Benefits will increase primarily based on employee wage and benefit increases and revised terms of a management-level employment agreement. Legal and consulting fees will also increase due to continuing implementation of federal regulations and expected amendments to certain District agreements with Christus Spohn. The District's major non-operating expenditures during fiscal year 2007 will include the development of a Replacement Robstown Neighbor Care Center. The District anticipates beginning construction of the Replacement Center in March 2007.

Tax Rates

For fiscal year 2007, the District's tax rate was lowered from \$0.174903 per \$100 valuation to \$0.160715, which is the effective tax rate. The District's taxable property valuations for 2007 are \$15,329,270,612 representing an increase of 11.4% over prior year. This increase will generate approximately \$24,636,437 in ad valorem tax revenues for the District.

CONTACTING DISTRICT MANAGEMENT

The District's financial statements are designed to provide citizens, taxpayers, investors, creditors, and others with a general overview of the District's financial position, 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. Additional financial statement information can be requested from the District at:

Nueces County Hospital District
Administrative Offices
555 North Carancahua Street, Suite 950
Corpus Christi, Texas 78478-0002
Telephone: (361) 808-3300
Facsimile: (361) 808-3274
E-Mail: donna.littlefield@nchdcc.org

HISTORICAL FINANCIAL STATEMENTS

Historical financial statements of the District are available on the Internet at www.nchdcc.org.

Basic Financial Statements

NUECES COUNTY HOSPITAL DISTRICT

(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

GOVERNMENTAL FUNDS BALANCE SHEET / STATEMENT OF NET ASSETS

SEPTEMBER 30, 2006

ASSETS	<u>GENERAL</u>	<u>INDIGENT CARE FUND</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>
Cash and Cash Equivalents (Note 3)	6,996,001	43,993,433	1,376,754
Investments (Note 3)	4,721	12,885,428	--
Accrued Interest	1,098	6,581	5,244
Hospital Lease Receivable (Note 4)	18,307,600		--
Taxes Receivable Net Of Allowance for Uncollectibles (Note 6):	1,250,091	--	--
Other Receivables	65,455	--	--
Due from Other Funds (Note 8)	39,915	--	113,095
Prepaid Expenditures	129,443	--	--
Bond Issue Costs			--
Land (Note 7)	--	--	--
Other Capital Assets, net of Accumulated Depreciation (Note 7)	--	--	--
TOTAL ASSETS	26,794,324	56,885,442	1,495,093

Exhibit 1

<u>TOTAL</u>	<u>ADJUSTMENTS EXHIBIT 3</u>	<u>STATEMENT OF NET ASSETS</u>
52,366,188	—	52,366,188
12,890,149	—	12,890,149
12,923	—	12,923
18,307,600	—	18,307,600
1,250,091	--	1,250,091
65,455	—	65,455
153,010	(153,010)	--
129,443	—	129,443
	158,206	158,206
--	2,813,804	2,813,804
--	6,783,993	6,783,993
<u>85,174,859</u>	9,602,993	94,777,852

(Continued)

NUECES COUNTY HOSPITAL DISTRICT

(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

GOVERNMENTAL FUNDS BALANCE SHEET / STATEMENT OF NET ASSETS

SEPTEMBER 30, 2006

	<u>GENERAL</u>	<u>INDIGENT CARE FUND</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>
LIABILITIES			
Accounts Payable	2,478,999	--	--
Accrued Payroll and Related Liabilities	40,773	--	--
Accrued Interest	--	--	122,433
Due to Other Funds (Note 8)	113,095	--	39,915
Deferred Revenue (Note 9)	19,557,691	--	--
Long-term Liabilities (Note 10):			
Due Within One Year	--	--	--
Due in More Than One Year	--	--	--
	-----	-----	-----
TOTAL LIABILITIES	22,190,558	--	162,348
 FUND EQUITY/NET ASSETS			
Fund Balances:			
Reserve for Prepaid Expenditures	129,443	--	--
Unreserved:			
Designated for Special Projects in Special Revenue Funds	--	56,885,442	979,317
Undesignated:			
General Fund	4,474,323	--	--
Debt Service	--	--	353,428
Total Fund Equity	4,603,766	56,885,442	1,332,745
	-----	-----	-----
TOTAL LIABILITIES AND FUND EQUITY	26,794,324	56,885,442	1,495,093
	-----	-----	-----
Net Assets:			
Invested in Capital Assets			
Unrestricted			
TOTAL NET ASSETS			

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

Exhibit 1
Continued

<u>TOTAL</u>	<u>ADJUSTMENTS EXHIBIT 2</u>	<u>STATEMENT OF NET ASSETS</u>
2,478,999	--	2,478,999
40,773	--	40,773
122,433	--	122,433
153,010	(153,010)	--
19,557,691	(19,557,691)	--
--	1,414,282	1,414,282
--	12,631,090	12,631,090
22,352,906	(5,665,329)	16,687,577
129,443	(129,443)	--
57,864,759	(57,864,759)	--
4,474,323	(4,474,323)	--
353,428	(353,428)	--
62,821,953	(62,821,953)	--
<u>85,174,859</u>		
	9,597,797	9,597,797
	68,492,476	68,492,476
	<u>78,090,273</u>	<u>78,090,275</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 ASSETS**

Total Fund Balance - Total Governmental Funds	62,821,953
Amounts reported for governmental activities in the statement of net assets 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 \$28,946,152 and the accumulated depreciation is \$19,348,355. (Note 7)	9,597,797
Taxes receivable, net of allowance is not available to pay for current period expenditures and is, therefore, deferred in the governmental funds. (Note 9)	1,250,091
Receivable from Spohn for the lease of capital assets is not available to pay current period expenditures and is deferred in the governmental funds. (Note 9)	18,307,600
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 10)	(14,045,372)
Bond issuance costs are not reported in the governmental funds.	<u>158,206</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>78,090,275</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, 2006

	<u>GENERAL</u>	<u>INDIGENT CARE FUND</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>
Revenues:			
Taxes	24,002,642	--	--
Penalties and Interest - Taxes	355,811	--	--
Leases - Spohn Health System	416,420	--	--
Rental - Spohn Health System	3,367,614	--	--
Tobacco Settlement	--	--	1,401,479
Investment Income	1,830,033	2,704,047	131,647
Gain on Closure of Self Insurance Funds	187,681	--	--
Grant Income	--	--	30,175
Other	26,935	--	--
Total Revenue	30,187,136	2,704,047	1,563,301
Expenditures:			
Current:			
General Government	1,601,710	--	29,051
Health	31,758,891	--	39,808
Depreciation	--	--	--
Capital Outlay	73,968	--	1,107,471
Total Current	33,434,569	--	1,176,330
Debt Service:			
Principal Payments	--	--	1,365,000
Interest and Fiscal Charges	--	--	510,208
Payment to Escrow Agent	--	--	300
Total Debt Service	--	--	1,875,508
Total Expenditures	33,434,569	--	3,051,838
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,247,433)	2,704,047	(1,488,537)
Other Financing Sources (Uses):			
Transfers In	3,009,000	--	1,848,279
Transfers Out	(1,848,279)	(1,600,000)	(1,409,000)
Total Other Financing Sources (Uses)	1,160,721	(1,600,000)	439,279
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(2,086,712)	1,104,047	(1,049,258)
Fund Balance/Net Assets, Beginning of Year	6,690,478	55,781,395	2,382,003
FUND BALANCE/NET ASSETS, END OF YEAR	4,603,766	56,885,442	1,332,745

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

Exhibit 3

<u>TOTAL</u>	<u>ADJUSTMENTS EXHIBIT 4</u>	<u>STATEMENT OF NET ASSETS</u>
24,002,642	33,395	24,036,037
355,811	--	355,811
416,420	(416,420)	--
3,367,614	--	3,367,614
1,401,479	--	1,401,479
4,665,727	--	4,665,727
187,681	--	187,681
30,175	--	30,175
26,935	--	26,935
<u>34,454,484</u>	<u>(383,025)</u>	<u>34,071,459</u>
1,630,761	(24,422)	1,606,339
31,798,699	--	31,798,699
--	613,466	613,466
<u>1,181,439</u>	<u>(1,181,439)</u>	<u>--</u>
<u>34,610,899</u>	<u>(592,395)</u>	<u>34,018,504</u>
1,365,000	(1,365,000)	--
510,208	70,856	581,064
300	--	300
<u>1,875,508</u>	<u>(1,294,144)</u>	<u>581,364</u>
<u>36,486,407</u>	<u>(1,886,539)</u>	<u>34,599,868</u>
(2,031,923)	1,503,514	(528,409)
4,857,279	(4,857,279)	--
<u>(4,857,279)</u>	<u>4,857,279</u>	<u>--</u>
<u>--</u>	<u>--</u>	<u>--</u>
(2,031,923)	1,503,514	(528,409)
<u>64,853,876</u>	<u>13,764,808</u>	<u>78,618,684</u>
<u>62,821,953</u>	<u>15,268,322</u>	<u>78,090,275</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	(2,031,923)
Amounts reported for governmental activities in the statement of net assets are different because:	
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 \$613,466 was less than capital outlays of \$1,181,439 in the current period. (Note 7)	567,973
Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is repayments for the year.	1,365,000
Bond issuance costs are expenditures in the governmental funds but are capitalized and amortized in the net assets. This is the amortization of prior period costs.	(70,856)
Principal collections on the Spohn lease during the current period are reported in the governmental funds as revenues and would have been reported in the statement of activities in a prior period.	(416,420)
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.	33,395
Expenses accrued for employees paid time off in the statement of activities that do not use current financial resources are not reported as expenses in the governmental funds.	<u>24,422</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>(528,409)</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, 2006

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues:				
Taxes	23,813,822	23,813,822	24,002,642	188,820
Penalties and Interest - Taxes	248,970	248,970	355,811	106,841
Leases - Spohn Health System	416,420	416,420	416,420	-
Rental - Spohn Health System	3,367,614	3,367,614	3,367,614	-
Investment Income	1,636,889	1,636,889	1,830,033	193,144
Gain on Closure of Self Insurance Funds	(35,000)	(35,000)	187,681	222,681
Other	-	-	26,935	26,935
Total Revenues	<u>29,448,715</u>	<u>29,448,715</u>	<u>30,187,136</u>	<u>738,421</u>
Expenditures:				
Current:				
General Government	1,793,803	1,793,803	1,601,710	192,093
Health	31,382,657	33,049,324	31,758,891	1,290,433
Capital Outlay	75,000	75,000	73,968	1,032
Total Current Expenditures	<u>33,251,460</u>	<u>34,918,127</u>	<u>33,434,569</u>	<u>1,483,558</u>
Deficiency of Revenues Over Expenditures	<u>(3,802,745)</u>	<u>(5,469,412)</u>	<u>(3,247,433)</u>	<u>2,221,979</u>
Other Financing Sources (Uses):				
Transfers In	3,139,221	4,972,554	3,009,000	(1,963,554)
Transfers Out	<u>(1,882,707)</u>	<u>(1,882,707)</u>	<u>(1,848,279)</u>	<u>34,428</u>
Total Other Financing Uses	<u>1,256,514</u>	<u>3,089,847</u>	<u>1,160,721</u>	<u>(1,929,126)</u>
Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Uses	<u>(2,546,231)</u>	<u>(2,379,565)</u>	<u>(2,086,712)</u>	<u>292,853</u>
Fund Balance, Beginning of Year			<u>6,690,478</u>	
FUND BALANCE, END OF YEAR			<u>4,603,766</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)

INDIGENT CARE FUND

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

YEAR ENDED SEPTEMBER 30, 2006

	<u>BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues-			
Investment Income	1,595,459	2,704,047	1,108,588
Total Revenues	<u>1,595,459</u>	<u>2,704,047</u>	<u>1,108,588</u>
Expenditures-			
Other Financing Uses-			
Transfers Out	5,226,176	1,600,000	(3,626,176)
Excess of Revenues over Other Financing Uses	<u>(3,630,717)</u>	1,104,047	<u>4,734,764</u>
Fund Balance, Beginning of Year		<u>55,781,395</u>	
FUND BALANCE, END OF YEAR		<u><u>56,885,442</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)
FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2006

	HEALTH BENEFIT PLAN AND TRUST FUND
ASSETS	
Cash and Cash Equivalents	366,836
Accrued Interest	1,580
Total Assets	368,416
LIABILITIES -	
Payable to General Fund	1,174
NET ASSETS	
Held in Trust for Employee Health Benefits	367,242

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 FUND BALANCE
YEAR ENDED SEPTEMBER 30, 2006

	<u>HEALTH BENEFIT PLAN AND TRUST FUND</u>
ADDITIONS	
Interest	16,513
DEDUCTIONS	
Group Insurance	13,400
Bank Charges	1,858
Total Deductions	<u>15,258</u>
Net Increase	1,255
Net Assets, Beginning of Year	<u>365,987</u>
NET ASSETS, END OF YEAR	<u><u>367,242</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, 2006

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.

Christus Spohn Health System (Spohn) leases the District's hospital, Memorial Medical Center (MMC), and its satellite clinics and is responsible for their operations. The lease calls 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.

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 master 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.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES

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 Assets 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.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES – (Continuation)

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 third 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, reserves, 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.

GASB 34 establishes criteria (percentage of assets, liabilities, revenues or expenditures/expenses of fund categories) for determination of major funds. The nonmajor funds are combined in a single column in the fund financial statements. 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 restricted to expenditures for specific purposes. They also are used to account for funds that are designated by the Board to be spent for specific purposes.

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.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES – (Continuation)

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

All governmental fund types 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. Lease income, rental income, intergovernmental 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. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due, and accumulated unpaid paid time off benefits which are recognized when paid.

In applying the “susceptible to accrual” concept to intergovernmental revenues pursuant to GASB Statement No. 33 “Accounting and Financial Reporting for Nonexchange Transactions”, the revenue provider recognizes liabilities and expenses and the revenue recipient recognizes receivables and revenue when the applicable eligibility requirements including time requirements, are met. Resources transmitted before the eligibility requirements are met are reported as advances by the provider and as deferred revenue by the recipient.

D. Budgets and Budgetary Accounting

The Board adopts an annual budget for the General Fund, the Debt Service Fund and the following Special Revenue Funds: Community Health Development Trust, Tobacco Settlement Fund and Indigent Care Fund. The Budget and revisions must be approved by the Board of Managers and then shall be presented to the County Commissioners Court for final approval.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES – (Continuation)

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; prime domestic bankers' acceptances; 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 6% of the outstanding balance at the end of the fiscal year.

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 500 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 12. 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.

Note 3 – CASH AND INVESTMENTS

Assumptions

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, 2006, the District segmented time distribution analysis of the portfolio by market sector is as follows:

INVESTMENT TYPE	INVESTMENT MATURITIES IN YEARS		
	FAIR VALUE	LESS THAN ONE YEAR	THREE TO FIVE YEARS
US Treasury Short-Term Notes	895,896	895,896	--
US Agencies			
FNMA	12,885,427	12,885,427	--
GNMA	4,721	--	4,721
AAA-Rated Local Government Investment Pool	5,066	5,066	--
Collateralized Money Market Account Deposits	51,344,025	51,344,025	--
Collateralized Checking Accounts	121,202	121,000	--
Total Value	65,256,337	65,251,414	4,721
% of Total Portfolio		99.99%	0.01%

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. Treasury Notes and 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 objective of the District's adopted Investment Policy is the safety of principal and avoidance of principal loss. 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 and 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 105% 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.

Note 3 – CASH AND INVESTMENTS – (Continuation)

State law and the District's adopted Investment Policy restricts investment in SEC registered money market mutual funds striving to maintain a \$1 net asset value as further defined by State law. Neither the state law nor the Policy requires a rating.

State law and the District's adopted Investment Policy restricts investments in mutual funds to AAA-rated no-load SEC registered mutual funds invested exclusively in obligations of the U.S. Government, its agencies and instrumentalities, commercial paper and bankers acceptances as further defined by state law. The funds must have a dollar-weighted average maturity of two years or less. The District may not invest more than 15% of its operating funds in mutual funds and may not invest bond funds or debt service funds in such funds. The District may not own more than 10% of the total assets of such fund.

Local government investment pools in Texas are required to be rated AAA, or equivalent, by at least one nationally recognized rating agency. The District 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, 2006, fully collateralized demand deposits in one bank (First National Bank) represented 78.24 % of the total portfolio.

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 5% shall be liquid. No more than 20% of the total portfolio shall be concentrated in a single maturity, issuer or security. The maximum weighted average maturity of eighteen (18) months. A segmented time distribution analysis of the portfolio is shown above.

As of September 30, 2006, the portfolio contained: one holding in the portfolio with a stated maturity date beyond one year representing 0.0072 % of the total portfolio, and the weighted average of the combined portfolio was 16 days on the total portfolio.

As of September 30, 2006, the portfolio contained one Government National Mortgage Association pass through mortgage backed note with an original par value of \$100,000 and current market value of \$4,721 and a coupon rate of 9%. The note was purchased October 1, 1986, matures on October 15, 2016 with an expected life of June 15, 2007.

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 105% 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, 2006, 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 4 – HOSPITAL LEASE AND INDIGENT CARE AGREEMENT

The District leases real estate and equipment to Spohn under a Lease Agreement. The Agreement calls for the non-cancelable lease for a term of thirty years, which may be extended by the parties for a maximum of ten years in two successive five-year terms. The lease price was \$66,066,799. The lease price has been allocated to two components. The first component amounting to \$43,892,394 was allocated to the real estate and has been accounted for as an operating lease. The second component amounting to \$22,174,405 was allocated to the working capital and equipment and has been accounted for as a sales-type lease. Spohn pays the District an annual base rent of \$5,068,930 in semi-annual payments.

The District and Spohn entered a related Indigent Care Agreement (ICA) wherein; Spohn became exclusive provider of the District's indigent healthcare. Pursuant to Chapter 281 of the Texas Health and Safety Code, the District is required to furnish medical and hospital care to indigent and needy persons residing in Nueces County. Under terms of the ICA, the District pays Spohn based upon negotiated rates, subject to an annual reconciliation of charges for providing such indigent care.

A schedule of minimum future rentals to be received on the non-cancelable operating lease related to the real estate as of September 30, 2006, for each of the next five years and in the aggregate follows:

	<u>TOTAL</u>
For the Year Ended September 30,:	
2007	3,367,614
2008	3,367,614
2009	3,367,614
2010	3,367,614
2011	3,367,614
Thereafter	<u>50,514,203</u>
MINIMUM FUTURE LEASE PAYMENTS	<u><u>67,352,273</u></u>

A schedule of the remaining sales-type lease payments relating to the equipment and working capital for each of the next five years and in the aggregate follows:

	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
For the Year Ended September 30, :			
2007	445,649	1,255,667	1,701,316
2008	476,929	1,224,387	1,701,316
2009	510,405	1,190,911	1,701,316
2010	546,230	1,155,086	1,701,316
2011	584,571	1,116,746	1,701,317
Thereafter	<u>15,743,816</u>	<u>9,775,929</u>	<u>25,519,745</u>
MINIMUM FUTURE LEASE PAYMENTS	<u><u>18,307,600</u></u>	<u><u>15,718,726</u></u>	<u><u>34,026,326</u></u>

Note 5 – 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, 2005 upon which the levy for the 2006 fiscal year was based was \$13,759,106,560.

The tax rate assessed for the year ended September 30, 2006 to finance general fund operations and the limited tax refunding bonds was \$0.174903 per \$100 valuation. Current tax collections for the year ended September 30, 2006 were 97% of the year-end adjusted tax.

Note 6 – 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, 2005</u>	<u>CURRENT YEAR LEVY</u>	<u>TOTAL COLLECTIONS</u>	<u>ADJUSTMENTS</u>	<u>BALANCE SEPTEMBER 30, 2006</u>
Delinquent Taxes					
Receivable	2,085,865	24,065,239	24,121,207	(57,849)	1,972,048
Allowance for					
Uncollectible Taxes	(869,169)	--	--	147,212	(721,957)
NET DELINQUENT TAX RECEIVABLE	1,216,696	24,065,239	24,121,207	89,363	1,250,091

Note 7 – CAPITAL ASSETS

A summary of changes in the capital assets follows:

	BALANCE, OCTOBER 1, 2005	ADDITIONS	REDUCTIONS	BALANCE, SEPTEMBER 30, 2006
Capital Assets, Not Being Depreciated:				
Land	311,328	--	--	311,328
Land Leased to Spohn	2,502,476	--	--	2,502,476
Total Capital Assets, Not Being Depreciated	2,813,804	--	--	2,813,804
Capital Assets, Being Depreciated:				
Equipment	763,421	204,481	--	967,902
Buildings Leased to Spohn	22,257,775	2,732,644	--	24,990,419
Construction in Progress	1,929,713	1,220,567	2,976,253	174,027
Total Capital Assets, Being Depreciated	24,950,909	4,157,692	2,976,253	26,132,348
Less Accumulated Depreciation for				
Equipment	490,292	85,437	--	575,729
Buildings Leased to Spohn	18,244,597	528,029	--	18,772,626
Total Accumulated Depreciation	18,734,889	613,466	--	19,348,355
Total Capital Assets, Being Depreciated, Net	6,216,020	3,544,226	2,976,253	6,783,993
TOTAL CAPITAL ASSETS, NET	9,029,824	3,544,226	2,976,253	9,597,797

The terms of the lease with Spohn restricts the District's ability to encumber the leased land and buildings.

Note 8 – INTERFUND RECEIVABLES AND PAYABLES

The General Fund has an interfund payable of \$113,095 due to the Community Health Development Fund a Non-Major Governmental Fund to refund deposits paid on capital expenditures.

The General Fund has interfund receivables of \$39,915 due from the Community Health Development Fund a Non-Major Governmental Fund. The General Fund pays the bills for the acquisition of capital assets acquired by the Community Health Development Fund and is subsequently reimbursed.

Note 9 – DEFERRED REVENUES

Deferred Revenue balances at September 30, 2005 consist of the following:

General Fund:	
Property Taxes	1,250,091
Hospital Lease	<u>18,307,600</u>
TOTAL DEFERRED REVENUES	<u>19,557,691</u>

Note 10–LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions of the District for the year ended September 30, 2006:

	<u>BALANCE, OCTOBER 1, 2005</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>BALANCE, SEPTEMBER 30, 2006</u>	<u>DUE WITHIN ONE YEAR</u>
Bonds:					
Limited Tax Refunding					
Bonds Series 2003	15,585,000	--	1,365,000	14,220,000	1,395,000
Premium	(1,968)	--	320	(1,648)	--
Deferred Loss on Refunding					
Refunding	(244,458)	--	39,784	(204,674)	--
Total Bonds	<u>15,338,574</u>	<u>--</u>	<u>1,405,104</u>	<u>14,013,678</u>	<u>1,395,000</u>
Other Liabilities-					
Accrued Paid Time Off	56,116	--	24,422	31,694	19,282
TOTAL	<u>15,394,690</u>	<u>--</u>	<u>1,429,526</u>	<u>14,045,372</u>	<u>1,414,282</u>

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 a reserved cash account for making debt payments. The balance of this account is \$475,790 at September 30, 2006. The District had sufficient cash and cash equivalents at year end to cover current maturities of bonds payable.

Note 10 –LONG-TERM OBLIGATIONS – (Continuation)

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,:			
2007	1,395,000	489,732	1,884,732
2008	1,430,000	454,857	1,884,857
2009	1,470,000	415,532	1,885,532
2010	1,515,000	371,433	1,886,433
2011	1,565,000	322,196	1,887,196
Thereafter	6,845,000	688,514	7,533,514
TOTAL	14,220,000	2,742,264	16,962,264

Note 11 - OPERATING LEASES

The District leases office space for its administrative offices under an operating lease expiring in 2008.

Minimum future rental payments under a non-cancelable operating lease having remaining terms in excess of one year as of September 30, 2006 for each of the next five years and in the aggregate are:

Year Ended September 30,:	
2007	122,447
2008	92,297
TOTAL	214,744

Rental payments under all operating leases amounted to \$125,656 during the year ended September 30, 2006.

Note 12 – 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, 2006, twenty-six employees were enrolled in the plan.

The Plan is administrated by an outside party. Employees can contribute up to 6% of their earnings. The District can make a discretionary matching contribution up to 3% of the employee's earnings. 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, 2006, the District had retirement plan expense of \$35,430.

Deferred Compensation Plan

The District has a deferred compensation agreement with a key employee which allows the employee to defer up to 10% of his annual compensation to future periods. The Plan is administrated by an outside party.

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Combining Schedules

NUECES COUNTY HOSPITAL DISTRICT
(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2006

	<u>SPECIAL REVENUE FUNDS</u>		
	<u>COMMUNITY HEALTH DEVELOPMENT FUND</u>	<u>GRANT FUND</u>	<u>TOBACCO SETTLEMENT FUND</u>
ASSETS			
Cash and Cash Equivalents	895,898	--	5,066
Accrued Interest	5,173	--	--
Due From General Fund	113,095	--	--
TOTAL ASSETS	1,014,166	--	5,066
LIABILITIES AND FUND BALANCE			
Current Liabilities:			
Accrued Interest	--	--	--
Due to General Fund	39,915	--	--
Total Current Liabilities	39,915	--	--
Fund Balance:			
Designated for Special Projects	974,251	--	5,066
Unreserved, Reported in Debt Service	--	--	--
Total Fund Balance	974,251	--	5,066
TOTAL LIABILITIES AND FUND BALANCE	1,014,166	--	5,066

Exhibit A-1

<u>TOTAL</u>	<u>DEBT SERVICE</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
900,964	475,790	1,376,754
5,173	71	5,244
113,095	--	113,095
<u>1,019,232</u>	<u>475,861</u>	<u>1,495,093</u>
--	122,433	122,433
39,915	--	39,915
39,915	122,433	162,348
979,317	--	979,317
--	353,428	353,428
979,317	353,428	1,332,745
<u>1,019,232</u>	<u>475,861</u>	<u>1,495,093</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, 2006

	SPECIAL REVENUE FUNDS		
	COMMUNITY		
	HEALTH	GRANT	TOBACCO
	DEVELOPMENT	FUND	SETTLEMENT
	FUND	FUND	FUND
Revenues:			
Tobacco Settlement	--	--	1,401,479
Investment Income	78,441	--	11,454
Grant Income	--	30,175	--
Total Revenues	<u>78,441</u>	<u>30,175</u>	<u>1,412,933</u>
Expenditures:			
General Government	29,051	--	--
Health	--	39,808	--
Capital Outlay	1,107,471	--	--
Debt Service:			
Principal Retirement	--	--	--
Interest and Fiscal Charges	--	--	--
Payment to Escrow Agent	--	--	--
Total Expenditures	<u>1,136,522</u>	<u>39,808</u>	<u>--</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,058,081)	(9,633)	1,412,933
Other Financing Sources (Uses):			
Transfers In	--	9,633	--
Transfers Out	--	--	(1,409,000)
Total Other Financing Sources (Uses)	<u>--</u>	<u>9,633</u>	<u>(1,409,000)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Uses	(1,058,081)	--	3,933
Fund Balance, Beginning of Year	<u>2,032,332</u>	<u>--</u>	<u>1,133</u>
FUND BALANCE, END OF YEAR	<u>974,251</u>	<u>--</u>	<u>5,066</u>

Exhibit A-2

<u>TOTAL</u>	<u>DEBT SERVICE</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
1,401,479	--	1,401,479
89,895	41,752	131,647
30,175	--	30,175
<u>1,521,549</u>	<u>41,752</u>	<u>1,563,301</u>
29,051	--	29,051
39,808	--	39,808
1,107,471	--	1,107,471
--	1,365,000	1,365,000
--	510,208	510,208
--	300	300
<u>1,176,330</u>	<u>1,875,508</u>	<u>3,051,838</u>
345,219	(1,833,756)	(1,488,537)
9,633	1,838,646	1,848,279
(1,409,000)	--	(1,409,000)
<u>(1,399,367)</u>	<u>1,838,646</u>	<u>439,279</u>
(1,054,148)	4,890	(1,049,258)
<u>2,033,465</u>	<u>348,538</u>	<u>2,382,003</u>
<u>979,317</u>	<u>353,428</u>	<u>1,332,745</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, 2006

	<u>ORIGINAL BUDGET</u>	<u>FINAL BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues:				
Taxes	23,813,822	23,813,822	24,002,642	188,820
Penalties and Interest - Taxes	248,970	248,970	355,811	106,841
Leases - Spohn Health System	416,420	416,420	416,420	--
Rental - Spohn Health System	3,367,614	3,367,614	3,367,614	--
Investment Income	1,636,889	1,636,889	1,830,033	193,144
Gain on Closure of Self Insurance Funds	(35,000)	(35,000)	187,681	222,681
Other	--	--	26,935	26,935
Total Revenues	29,448,715	29,448,715	30,187,136	738,421
Expenditures:				
Current:				
General Government:				
Administration:				
Personal Services	517,266	497,266	379,076	118,190
Materials and Supplies	64,170	64,170	71,734	(7,564)
Contractual Services	993,141	1,013,141	870,694	142,447
Other	216,226	216,226	278,425	(62,199)
Total Administration	1,790,803	1,790,803	1,599,929	190,874
Facilities Management-				
Materials and Supplies	3,000	3,000	1,781	1,219
Total General Government	1,793,803	1,793,803	1,601,710	192,093
Health:				
Personal Services	1,036,404	1,036,404	973,179	63,225
Materials and Supplies	63,980	63,980	54,959	9,021
Contractual Services	183,832	183,832	139,893	43,939
Indigent Care	25,592,862	25,592,862	25,592,862	--
City and County Services	4,214,429	5,881,096	4,745,667	1,135,429
Other	291,150	291,150	252,331	38,819
Total Health	31,382,657	33,049,324	31,758,891	1,290,433
Capital Outlay	75,000	75,000	73,968	1,032
Total Current Expenditures	33,251,460	34,918,127	33,434,569	1,483,558
Deficiency of Revenues Over Expenditures	(3,802,745)	(5,469,412)	(3,247,433)	2,221,979
Other Sources (Uses):				
Transfers In	3,139,221	4,972,554	3,009,000	(1,963,554)
Transfers Out	(1,882,707)	(1,882,707)	(1,848,279)	34,428
Total Other Financing Uses	1,256,514	3,089,847	1,160,721	(1,929,126)
Deficiency of Revenues Over Expenditures and Other Uses	(2,546,231)	(2,379,565)	(2,086,712)	292,853
Fund Balance, Beginning of Year			6,690,478	
FUND BALANCE, END OF YEAR			4,603,766	

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, 2006

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues-			
Investment Income	1,595,459	2,704,047	1,108,588
Total Revenues	<u>1,595,459</u>	<u>2,704,047</u>	<u>1,108,588</u>
Other Financing Uses -			
Transfers Out	5,226,176	1,600,000	3,626,176
Total Other Financing Uses	<u>5,226,176</u>	<u>1,600,000</u>	<u>3,626,176</u>
Excess (Deficiency) of Revenues and Other Financing Sources	<u>(3,630,717)</u>	1,104,047	<u>4,734,764</u>
Fund Balance, Beginning of Year		<u>55,781,395</u>	
FUND BALANCE, END OF YEAR		<u>56,885,442</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, 2006**

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues:			
Tobacco Settlement	913,045	1,401,479	488,434
Investment Income	--	11,454	11,454
Total Revenues	<u>913,045</u>	<u>1,412,933</u>	<u>499,888</u>
Other Financing Uses-			
Transfers Out	(913,045)	(1,409,000)	(495,955)
Total Other Financing Uses	<u>(913,045)</u>	<u>(1,409,000)</u>	<u>(495,955)</u>
Excess of Revenues Over Other Financing Uses	<u> --</u>	<u> 3,933</u>	<u> 3,933</u>
Fund Balance, Beginning of Year		<u> 1,133</u>	
FUND BALANCE, END OF YEAR		<u> 5,066</u>	

NUECES COUNTY HOSPITAL DISTRICT(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)COMMUNITY HEALTH DEVELOPMENT FUNDSCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCEBUDGET (GAAP BASIS) AND ACTUALYEAR ENDED SEPTEMBER 30, 2006

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues-			
Investment Income	40,670	78,441	37,771
Total Revenues	<u>40,670</u>	<u>78,441</u>	<u>37,771</u>
Expenditures-			
General Government:			
Bank Charges	9,302	9,731	(429)
Contractual Services	--	19,320	(19,320)
Total General Government	<u>9,302</u>	<u>29,051</u>	<u>(19,749)</u>
Capital Outlay	4,623,120	1,107,471	3,515,649
Total Expenditures	<u>4,632,422</u>	<u>1,136,522</u>	<u>3,495,900</u>
Deficiency of Revenues Under Expenditures	(4,591,752)	(1,058,081)	(3,533,671)
Other Financing Sources -			
Transfers In	3,000,000	--	(3,000,000)
Total Other Financing Sources	<u>3,000,000</u>	<u>--</u>	<u>(3,000,000)</u>
Deficiency of Revenues and Other Financing Sources Under Expenditures	<u>(1,591,752)</u>	<u>(1,058,081)</u>	<u>(6,533,671)</u>
Fund Balance, Beginning of Year		<u>2,032,332</u>	
FUND BALANCE, END OF YEAR		<u>974,251</u>	

NUECES COUNTY HOSPITAL DISTRICT(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)DEBT SERVICE FUNDSCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUALYEAR ENDED SEPTEMBER 30, 2006

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues - Interest	26,024	41,752	15,728
Expenditures:			
Principal	1,365,000	1,365,000	-
Interest and Fiscal Charges	510,207	510,208	(1)
Payment to Escrow Agent	1,500	300	1,200
Total Expenditures	<u>1,876,707</u>	<u>1,875,508</u>	<u>1,199</u>
Deficiency of Revenues Over Expenditures	<u>(1,850,683)</u>	<u>(1,833,756)</u>	<u>16,927</u>
Other Financing Sources -			
Operating Transfers In	1,882,707	1,838,646	(44,061)
Total Other Financing Sources	<u>1,882,707</u>	<u>1,838,646</u>	<u>(44,061)</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures	<u>32,024</u>	4,890	<u>(27,134)</u>
Fund Balance, Beginning of Year		<u>348,538</u>	
FUND BALANCE, END OF YEAR		<u>353,428</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**

November 22, 2006

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

We have audited 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, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents and have issued our report thereon dated November 22, 2006. 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nueces County Hospital District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

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*.

This report is intended for the information of the Board of Managers and management and is not intended to be and should not be used by anyone other than these specified parties.

Collier, Johnson & Woods