

NUECES COUNTY HOSPITAL DISTRICT

ANNUAL FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2011

INDEPENDENT AUDITOR'S REPORT

December 30, 2011

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, 2011, 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, 2011, 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 December 30, 2011 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.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 15 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.

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 46 through 53 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
AUDITED FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2011

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**Nueces County Hospital District
Management's Discussion and Analysis
For Fiscal Year Ended September 30, 2011**

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, 2011. 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.

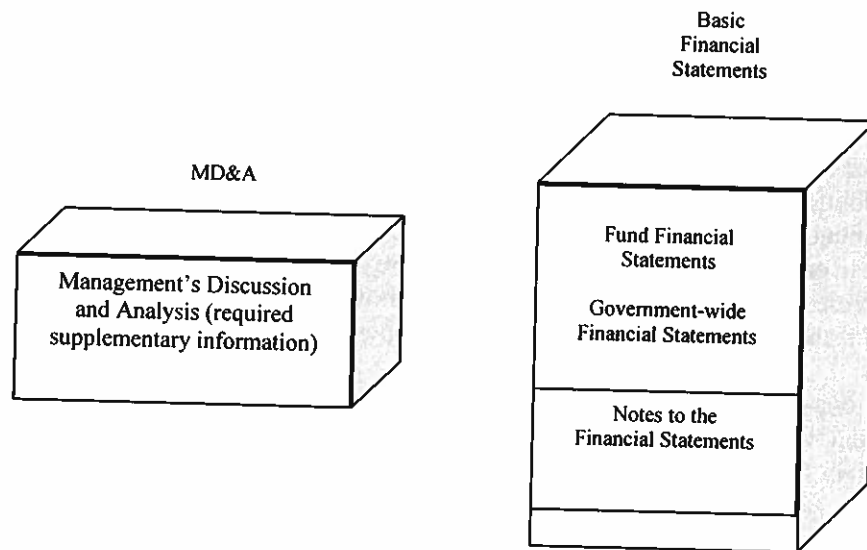
Financial Highlights

At fiscal year ended September 30, 2011, the District's General Fund balance amounted to \$4.620 million compared to \$4.890 million in 2010, a 5.5% decrease. 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 10.0% of the District's final fiscal year-end expenditures. In fiscal year 2011, an aggregate amount of \$5 million was transferred from the District's Indigent Care Fund to its General Fund to maintain that balance.

The assets of the District exceeded its liabilities on September 30, 2011 and 2010 by \$57.361 million and \$62.114 million, respectively. Cash and investments amounted to \$38.394 million and \$45.963 million which represent 59% of total assets for September 30, 2011 and 62% for 2010, 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 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 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 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 Assets (Government-Wide)

The District's total net assets were \$57.361 million and \$62.114 million as of September 30, 2011 and 2010, respectively, a decrease of \$4.753 million or 7.7%. Total assets decreased \$8.747 million or 11.8% compared to September 30, 2010. The District's total liabilities decreased \$3.995 million or 32.4% compared to September 30, 2010.

TABLE A-1
Nueces County Hospital District Net Assets
September 30, 2011 and 2010
(In Thousands)

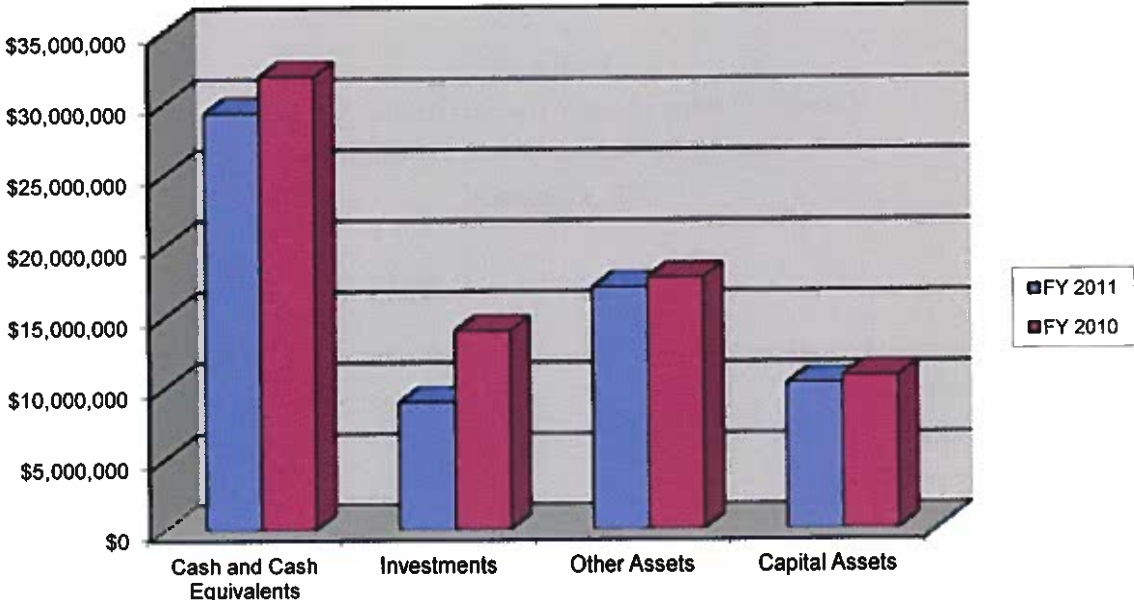
Assets:	<u>2011</u>	<u>2010</u>	<u>2011-2010</u> <u>Variance</u>
Cash and Cash Equivalents	\$ 29,396	\$ 31,959	\$ (2,563)
Investments	8,998	14,004	(5,006)
Other Assets	17,042	17,719	(677)
Capital Assets (Net of Accumulated Depreciation)	<u>10,262</u>	<u>10,763</u>	<u>(501)</u>
Total Assets	<u>65,698</u>	<u>74,445</u>	<u>(8,747)</u>
Liabilities:			
Accounts Payable	1,331	3,774	(2,443)
Accrued Payroll and Related Liabilities	76	74	2
Accrued Interest	67	80	(13)
Long-Term Liabilities:			
Due Within One Year	1,615	1,565	50
Due in More Than One Year	<u>5,247</u>	<u>6,838</u>	<u>(1,591)</u>
Total Liabilities	<u>8,336</u>	<u>12,331</u>	<u>(3,995)</u>
Net Assets:			
Invested in Capital Assets, Net of Related Debt	3,399	2,427	972
Unrestricted	<u>53,962</u>	<u>59,687</u>	<u>(5,725)</u>
Total Net Assets	<u>\$ 57,361</u>	<u>\$ 62,114</u>	<u>\$ (4,753)</u>

Management's Discussions

In fiscal year 2011, the \$7.569 million or 16.5% net decrease in Cash and Cash Equivalents and Investments combined is the result of a planned effort to reduce the District's reserves. The \$677 thousand or 3.8% decrease in Other Assets relates to reductions in receivables. The \$501 thousand or 4.6% decrease in Capital Assets (Net of Accumulated Depreciation) mainly relates to depreciation expense. Accounts Payable decreased \$2.443 million or 64.7% on account of payments of accrued county healthcare liabilities. Long Term Liabilities had a \$1.541 million or 18.3% net decrease mostly as the result of payments of bond debt.

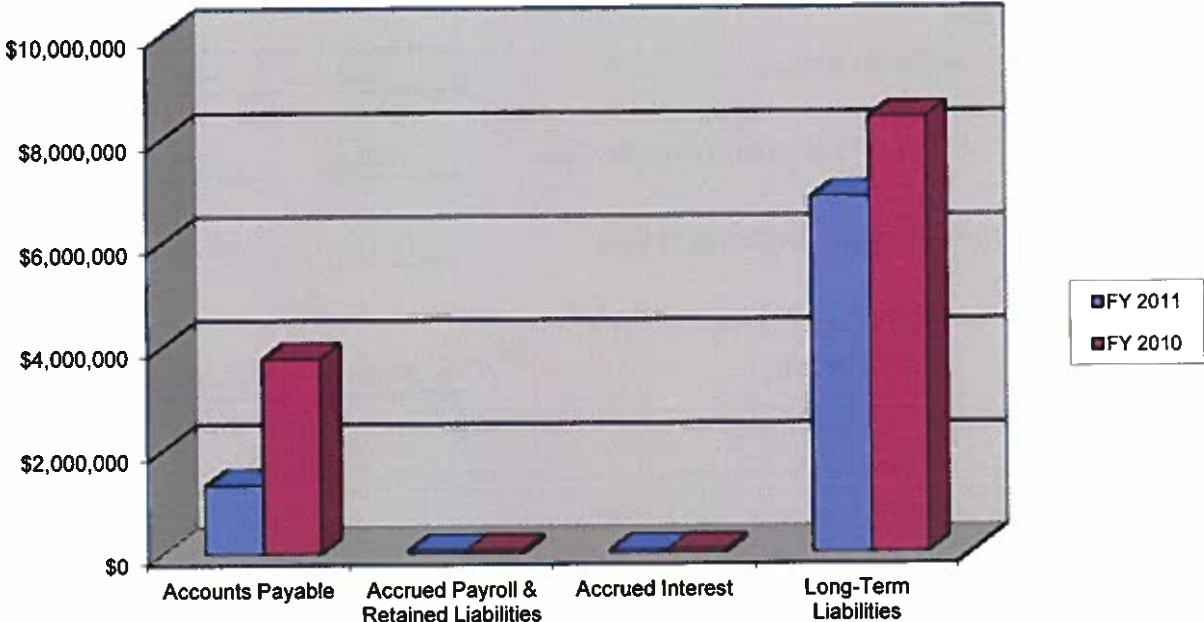
Please refer to Table A-1 above for details of Chart A-1.1 below relating to the District's Assets.

**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**



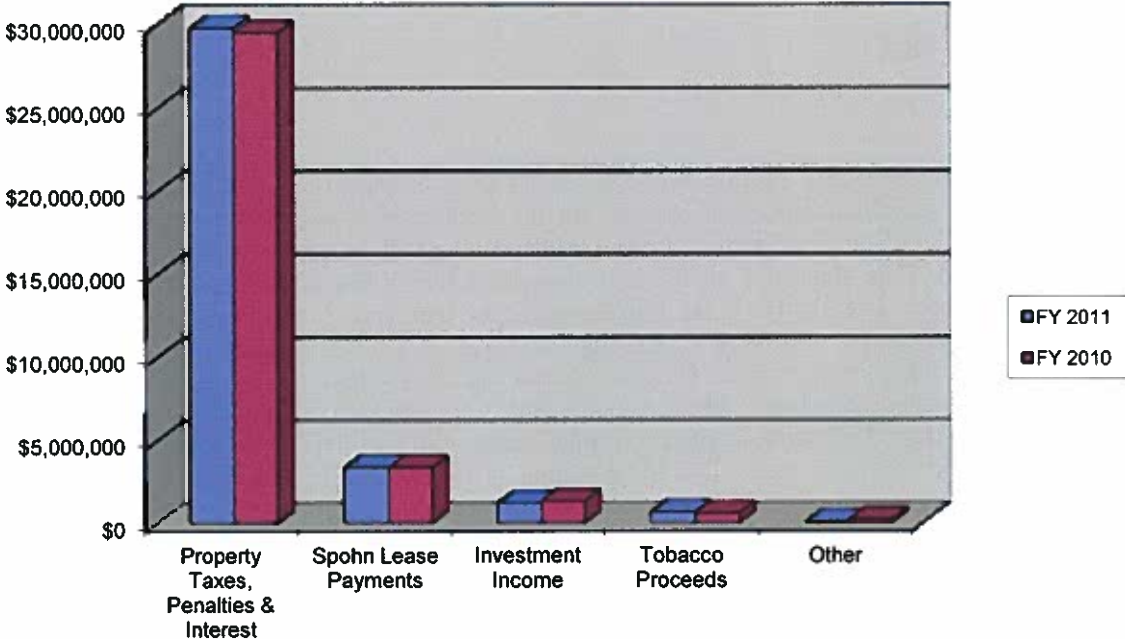
Statement of Activities (Government-Wide)

TABLE A-2
Changes in Nueces County Hospital District Net Assets
Years Ended September 30, 2011 and 2010
(In Thousands)

Revenues:	<u>2011</u>	<u>2010</u>	<u>2011-2010</u> <u>Variance</u>
Property Taxes and Penalties and Interest	\$ 29,828	\$ 29,533	\$ 295
Spohn Rental Payments	3,368	3,368	--
Investment Income	1,217	1,341	(124)
Tobacco Proceeds	688	602	86
Other	79	230	(151)
Total Revenues	<u>35,180</u>	<u>35,074</u>	<u>106</u>
 Expenses:			
General Government	1,762	1,565	197
Health	37,286	37,225	61
Depreciation	533	602	(69)
Total Expenses	<u>39,581</u>	<u>39,392</u>	<u>189</u>
 Debt Service-			
Interest and Fiscal Charges	<u>352</u>	<u>409</u>	<u>(57)</u>
 Excess of Expenditures Over Revenues	<u>(4,753)</u>	<u>(4,727)</u>	<u>(26)</u>
 Fund Balance/Net Assets, Beginning of Year	<u>62,114</u>	<u>66,841</u>	<u>(4,727)</u>
 FUND BALANCE, NET ASSETS,			
END OF YEAR	<u><u>\$ 57,361</u></u>	<u><u>\$ 62,114</u></u>	<u><u>\$ (4,753)</u></u>

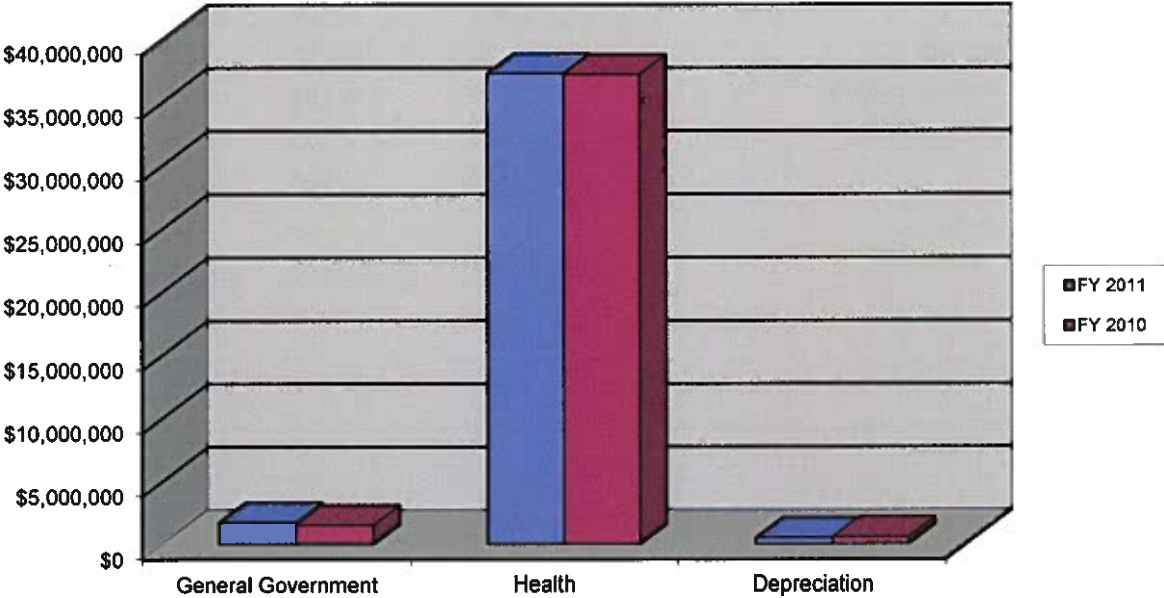
Please refer to Table A-2 above for details of Chart A-2.1 below relating to the District's Revenues.

**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 2011, the District's total revenues increased \$106 thousand or 0.3% compared to the 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 increased by \$295 thousand or 1% and accounted for 84.9% of total revenues compared to 84.2% in the prior year. The District's tax rate during 2011 increased 5% from \$0.154687 in 2010 to \$0.162428 per \$100 valuation. Property valuations decreased by \$884.4 million or 4.55%. 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 \$5,068,930. This lease-related revenue accounted for 14.4% of total District revenue compared to 14.5% in the prior year. The third source is Investment Income which decreased \$124 thousand or 9.2% from a reduction in cash and investments and declining capital market conditions compared to prior year. The fourth source is Tobacco Settlement reimbursements from the State of Texas' tobacco litigation which increased by \$86 thousand or 14.3% compared to prior year. Additional revenue proceeds which mostly include the auctioning of surplus equipment and reimbursements from other local government entities had a decrease of \$151 thousand from prior year or 65.6%.

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

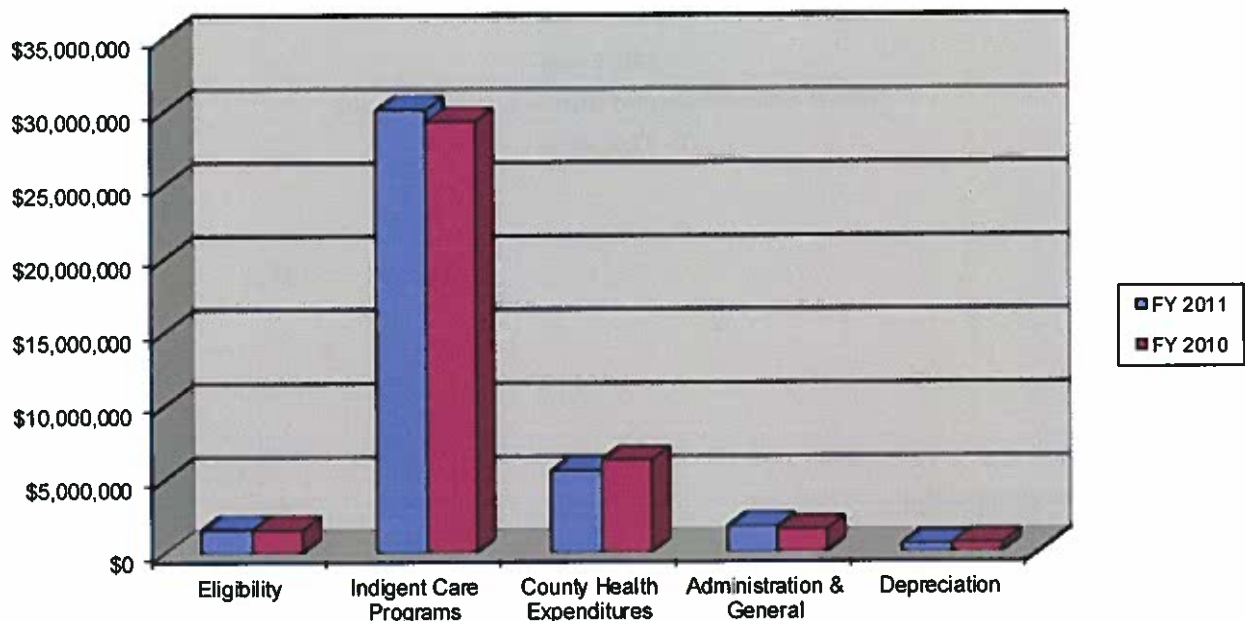
	<u>2011</u>	<u>2010</u>	<u>2011-2010</u> <u>Variance</u>
Eligibility	\$ 1,602	\$ 1,587	\$ 15
Indigent Care Programs	30,112	29,333	779
County Healthcare Expenditures	5,572	6,305	(733)
Administration and General	1,762	1,565	197
Depreciation	533	602	(69)
TOTAL	<u>\$ 39,581</u>	<u>\$ 39,392</u>	<u>\$ 189</u>

Net Costs

The net cost of the District's functions in fiscal year 2011 increased \$189 thousand or 0.5% 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 enable the District to provide the statutorily required indigent medical aid and hospital care to eligible indigents. These services are provided through the District's Indigent Care Agreement with Christus Spohn Health System. This cost increased \$779 thousand or 2.7% in 2011 compared to prior year as the result of inflation-related payment increases required by the Agreement. Indigent Care Program costs represented 76.1% of all net costs in 2011 compared to 74.5% in the prior year. The second largest amount of cost is \$5.572 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 MHMR center, subsidies for emergency medical services and costs associated with operation of the County Jail's infirmary. This cost decreased \$733 thousand or 11.6% in 2011 compared to the prior year. County Healthcare Expenditure costs represented 14.1% of all the District's net costs in 2011 compared to 16% in the prior year. The two other costs of the District are Administrative and General and Eligibility costs. Collectively, these costs increased \$211 thousand or 6.7% during 2011 compared to prior year. These are costs incurred in operating the District. The major costs for this are salaries and benefits, legal fees, consulting fees, rents, supplies, and purchased services. Administrative and General Costs represented 4.5% of all net costs in 2011 compared to 4% in the prior year. Eligibility costs represented 4.1% of all net costs in 2011 as well as in the prior 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
Net Cost of Selected District Functions



General Fund Budgetary Highlights

Expectations for the District's General Fund budget were surpassed during fiscal year 2011.

Revenues

Revenues exceeded budget by \$952 thousand. Of the excess revenues, \$873.9 thousand was related to collections of ad valorem taxes, penalties and interest. Investment income was just under budget by about \$1.6 thousand. Recovery of certain prior year's expenses, proceeds from other local government entities, and the auctioning of surplus equipment accounted for approximately \$79.7 thousand.

Expenditures

Expenditures were less than budget by \$1.27 million. Of the expenditures less than budget, \$242.5 thousand is associated with Contractual Services. This relates to unused budgeted legal and consultant fees, claims management activities, and tax collection services. Personal Services were less than budget by \$127.5 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 \$777.9 thousand due to a prior year's expense reversal and capped contractual jail services. The Materials and Supplies category was under budget by \$27.4 thousand as a result of underutilization.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The District had \$10.26 million in net capital assets at the end of September 30, 2011. The breakdown of the capital assets is as follows:

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

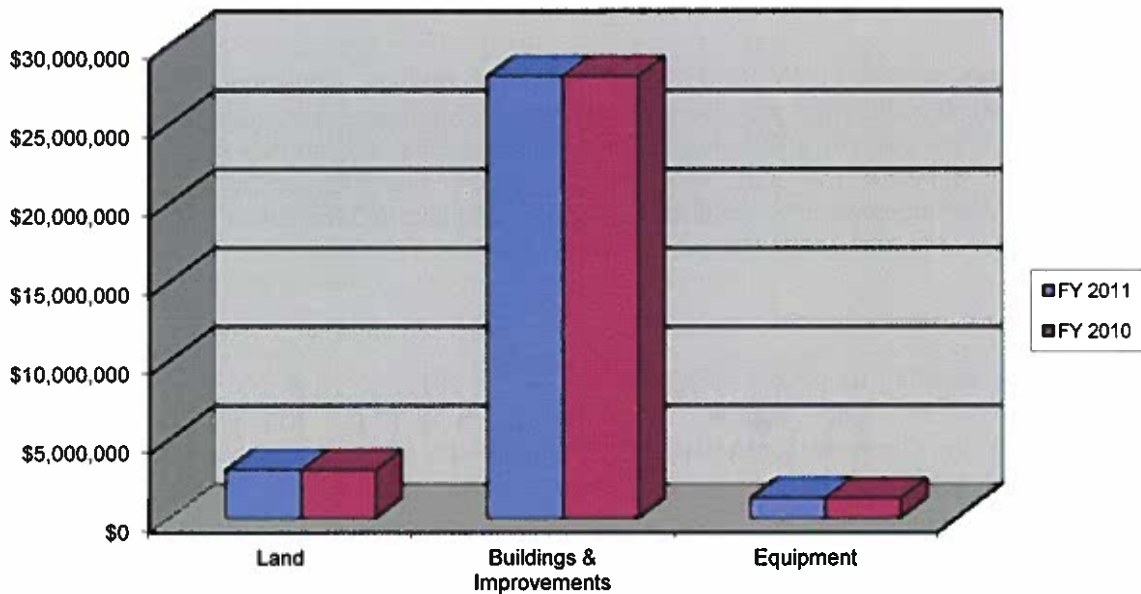
	<u>2011</u>	<u>2010</u>	<u>2011-2010</u> <u>Variance</u>
Land	\$ 3,077	\$ 3,077	\$ --
Buildings and Improvements	28,073	28,073	--
Equipment	1,301	1,286	15
Total	<u>32,451</u>	<u>32,436</u>	15
Less: Accumulated Depreciation	22,189	21,673	516
NET CAPITAL ASSETS	<u><u>\$ 10,262</u></u>	<u><u>\$ 10,763</u></u>	<u><u>\$ (501)</u></u>

Under terms of the current 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 to purchase equipment.

During the fiscal year, 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>2011</u>	<u>2010</u>	<u>2011-2010 Variance</u>
Bonds Payable	\$ 6,796	\$ 8,336	\$ (1,540)
Accrued Paid Time Off	<u>67</u>	<u>67</u>	<u>--</u>
NET LONG-TERM DEBT	<u><u>\$ 6,863</u></u>	<u><u>\$ 8,403</u></u>	<u><u>(\$1,540)</u></u>

The Bonds Payable matures on July 1, 2015. Future years interest rates associated with the District's long-term bond debt progressively increase from 3.5% (2011) 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, Tax Rates, and Financial Planning

Economic Factors

State budget pressures brought on by the economy may alter funding, services, or eligibility for its Medicaid program which could affect enrollments in the District's indigent care program. Federal health care reform actions may eventually affect enrollments in the District's indigent 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. Federal actions to reduce the number of health care uninsured could impact the number of enrollees in the District's indigent care program and the District's mission.

Next Year's Budget

For the District's forthcoming fiscal year ending September 30, 2012, the District's Board of Managers and County Commissioner's Court approved a District operating budget wherein expenses exceed revenues by \$5,014,759. The operating deficit will be funded with transfers from the District's current Indigent Care Fund reserves.

During fiscal year 2012, the District's budgeted operating expenditures will decrease \$240.5 thousand or 0.6% compared to fiscal year 2011. Under terms of the District's Indigent Care Agreement with Christus Spohn Health System, the District's annual indigent care payment to Christus Spohn will increase by \$1,060,488. 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 2011, the average increase was 3.63%, thus increasing the District's payments to Christus Spohn by the amount above. County healthcare services will decrease by \$1.07 million because of the return of certain expenditures to the County, including emergency medical services and jail infirmary costs.

Tax Rates

The Hospital District's property valuation for 2012 has increased by 3.7%. However, the District's reserves have been steadily decreasing from the drawing of funds in previous years for operations. To lessen reliance on the District's reserves, County Commissioners Court has maintained the District's tax rate for the 2012 budget \$100 valuation at \$0.162428, the same as last year. The District's taxable property valuations for 2012 are \$19,222,108,392. The 2012 budget estimates tax revenues of \$29 million, an increase of \$1 million or 3.63% over fiscal year 2011. Management believes adjustments to the District's revenues and expenditures will be necessary in subsequent fiscal years.

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 reserve funds to fund this obligation. The District has also used its reserve funds to fund certain County healthcare-related functions previously paid by the County. In future years, the District anticipates lessening its reliance on reserve funds. The District does not receive any State or Federal funding for indigent health care or other programs.

Property Valuations

Considering the general weakness in the economy, tax base expansion may not be as favorable as in recent years and future taxable property valuations may continue to decline. Tax base expansion is expected, but at a modest rate.

CONTACTING DISTRICT MANAGEMENT

These District financial statements are designed to provide our citizens, taxpayers, 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 North Carancahua Street, Suite 950
Corpus Christi, Texas 78401-0835
Telephone: 361.808.3300
Facsimile: 361.808.3274
Internet: <http://www.nchdcc.org/contact.cfm>

HISTORICAL AUDITED FINANCIAL STATEMENTS

Historical audited financial statements of the District since fiscal year 2000 are available via the Internet and can be downloaded in Portable Document Format from www.nchdcc.org/financial.cfm.

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Basic Financial Statements

NUECES COUNTY HOSPITAL DISTRICT

(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

GOVERNMENTAL FUNDS BALANCE SHEET / STATEMENT OF NET ASSETS

SEPTEMBER 30, 2011

ASSETS	<u>GENERAL</u>	<u>INDIGENT CARE FUND</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>
Cash and Cash Equivalents (Note 3)	5,895,395	23,028,153	472,453
Investments (Note 3)	1,714	8,996,454	--
Accrued Interest	11	6,383	--
Hospital Lease Receivable (Note 4)	15,743,815	--	--
Taxes Receivable Net Of Allowance for Uncollectibles (Note 6):	1,123,323	--	--
Other Receivables	10,090	--	--
Prepaid Expenditures	121,136	--	--
Bond Issue Costs	--	--	--
Land (Note 7)	--	--	--
Other Capital Assets, net of Accumulated Depreciation (Note 7)	--	--	--
TOTAL ASSETS	<u>22,895,484</u>	<u>32,030,990</u>	<u>472,453</u>

Exhibit 1

<u>TOTAL</u>	<u>ADJUSTMENTS EXHIBIT 2</u>	<u>STATEMENT OF NET ASSETS</u>
29,396,001	--	29,396,001
8,998,168	--	8,998,168
6,394	--	6,394
15,743,815	--	15,743,815
1,123,323	--	1,123,323
10,090	--	10,090
121,136	--	121,136
--	37,771	37,771
--	3,076,926	3,076,926
--	7,184,673	7,184,673
<u>55,398,927</u>	<u>10,299,370</u>	<u>65,698,297</u>

(Continued)

NUECES COUNTY HOSPITAL DISTRICT

(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

GOVERNMENTAL FUNDS BALANCE SHEET / STATEMENT OF NET ASSETS

SEPTEMBER 30, 2011

LIABILITIES	<u>GENERAL</u>	<u>INDIGENT CARE FUND</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>
Accounts Payable	1,331,308	--	--
Accrued Payroll and Related Liabilities	76,491	--	--
Accrued Interest	--	--	66,855
Deferred Revenue (Note 8)	16,867,138	--	--
Long-term Liabilities (Note 9):			
Due Within One Year	--	--	--
Due in More Than One Year	--	--	--
TOTAL LIABILITIES	18,274,937	--	66,855
FUND EQUITY/NET ASSETS			
Fund Balances:			
Nonspendable	121,136	--	--
Committed to Indigent Care	--	32,030,990	--
Assigned to:			
Debt Service	--	--	404,796
County Health Care	--	--	802
Unassigned	4,499,411	--	--
Total Fund Equity	4,620,547	32,030,990	405,598
TOTAL LIABILITIES AND FUND EQUITY	22,895,484	32,030,990	472,453
Net Assets:			
Invested in Capital Assets, net of Related Debt			
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>
1,331,308	--	1,331,308
76,491	--	76,491
66,855	--	66,855
16,867,138	(16,867,138)	--
--	1,615,000	1,615,000
--	5,247,642	5,247,642
18,341,792	(10,004,496)	8,337,296
121,136	(121,136)	--
32,030,990	(32,030,990)	--
404,796	(404,796)	--
802	(802)	--
4,499,411	(4,499,411)	--
37,057,135	(37,057,135)	--
<u>55,398,927</u>		
	3,398,952	3,398,952
	53,962,052	53,962,052
	<u>57,361,004</u>	<u>57,361,001</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	37,057,135
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 \$32,451,084 and the accumulated depreciation is \$22,189,485 (Note 7)	10,261,599
Taxes receivable, net of allowance is not available to pay for current period expenditures and is, therefore, deferred in the governmental funds. (Note 8)	1,123,323
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 8)	15,743,815
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)	(6,862,642)
Bond issuance costs are not reported in the governmental funds.	<u>37,771</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>57,361,001</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, 2011

	<u>GENERAL</u>	<u>INDIGENT CARE FUND</u>	<u>NONMAJOR GOVERNMENTAL FUNDS</u>
Revenues:			
Taxes	29,486,068	--	--
Penalties and Interest - Taxes	358,260	--	--
Leases - Spohn Health System	584,571	--	--
Rental - Spohn Health System	3,367,615	--	--
Tobacco Settlement	--	--	687,793
Investment Income	1,131,958	83,321	1,256
Other	79,671	--	--
Total Revenue	<u>35,008,143</u>	<u>83,321</u>	<u>689,049</u>
Expenditures:			
Current:			
General Government	1,761,715	--	--
Health	37,285,555	--	--
Depreciation	--	--	--
Capital Outlay	32,406	--	--
Total Current	<u>39,079,676</u>	<u>--</u>	<u>--</u>
Debt Service:			
Principal Payments	--	--	1,565,000
Interest and Fiscal Charges	--	--	308,501
Payment to Escrow Agent	--	--	300
Total Debt Service	<u>--</u>	<u>--</u>	<u>1,873,801</u>
Total Expenditures	<u>39,079,676</u>	<u>--</u>	<u>1,873,801</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,071,533)	83,321	(1,184,752)
Other Financing Sources (Uses): (Note 11)			
Transfers In	5,688,000	--	1,885,998
Transfers Out	(1,885,998)	(5,000,000)	(688,000)
Total Other Financing Sources (Uses)	<u>3,802,002</u>	<u>(5,000,000)</u>	<u>1,197,998</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	(269,531)	(4,916,679)	13,246
Fund Balance/Net Assets, Beginning of Year	<u>4,890,078</u>	<u>36,947,669</u>	<u>392,352</u>
FUND BALANCE/NET ASSETS, END OF YEAR	<u>4,620,547</u>	<u>32,030,990</u>	<u>405,598</u>

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>
29,486,068	(16,174)	29,469,894
358,260	--	358,260
584,571	(584,571)	--
3,367,615	--	3,367,615
687,793	--	687,793
1,216,535	--	1,216,535
79,671	(267)	79,404
<u>35,780,513</u>	<u>(601,012)</u>	<u>35,179,501</u>
1,761,715	--	1,761,715
37,285,555	--	37,285,555
--	533,222	533,222
32,406	(32,406)	--
<u>39,079,676</u>	<u>500,816</u>	<u>39,580,492</u>
1,565,000	(1,565,000)	--
308,501	42,844	351,345
300	--	300
<u>1,873,801</u>	<u>(1,522,156)</u>	<u>351,645</u>
<u>40,953,477</u>	<u>(1,021,340)</u>	<u>39,932,137</u>
(5,172,964)	420,328	(4,752,636)
7,573,998	(7,573,998)	--
(7,573,998)	7,573,998	--
<u>--</u>	<u>--</u>	<u>--</u>
(5,172,964)	420,328	(4,752,636)
<u>42,230,099</u>	<u>19,883,538</u>	<u>62,113,637</u>
<u>37,057,135</u>	<u>20,303,866</u>	<u>57,361,001</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	(5,172,964)
--	-------------

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 \$533,222 was less than capital outlays of \$32,406 in the current period less book value of assets sold of \$267. (Note 7)	(501,083)
---	-----------

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. (Note 9)	1,565,000
--	-----------

Bond issuance costs are expenditures in the governmental funds but are capitalized and amortized in the net assets. Prior period premiums and loss on refunding are also amortized.	(42,844)
---	----------

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.	(584,571)
--	-----------

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.	(16,174)
---	----------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u>(4,752,636)</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 FUNDSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUALYEAR ENDED SEPTEMBER 30, 2011

	<u>FINAL BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues:			
Taxes	28,690,455	29,486,068	795,613
Penalties and Interest - Taxes	279,907	358,260	78,353
Leases - Spohn Health System	584,571	584,571	--
Rental - Spohn Health System	3,367,615	3,367,615	--
Investment Income	1,133,588	1,131,958	(1,630)
Other	--	79,671	79,671
Total Revenues	<u>34,056,136</u>	<u>35,008,143</u>	<u>952,007</u>
Expenditures:			
Current:			
General Government	2,016,596	1,761,715	254,881
Health	38,259,560	37,285,555	974,005
Capital Outlay	75,000	32,406	42,594
Total Current Expenditures	<u>40,351,156</u>	<u>39,079,676</u>	<u>1,271,480</u>
Deficiency of Revenues Over Expenditures	(6,295,020)	(4,071,533)	2,223,487
Other Financing Sources (Uses):			
Transfers In	7,371,000	5,688,000	(1,683,000)
Transfers Out	(1,885,998)	(1,885,998)	--
Total Other Financing Sources	<u>5,485,002</u>	<u>3,802,002</u>	<u>(1,683,000)</u>
Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Uses	<u>(810,018)</u>	<u>(269,531)</u>	<u>540,487</u>
Fund Balance, Beginning of Year		<u>4,890,078</u>	
FUND BALANCE, END OF YEAR		<u>4,620,547</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 FUNDSTATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUALYEAR ENDED SEPTEMBER 30, 2011

	<u>BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues -			
Investment Income	139,316	83,321	(55,995)
Expenditures -			
Other Financing Uses -			
Transfers Out	(6,921,000)	(5,000,000)	1,921,000
	<u>(6,921,000)</u>	<u>(5,000,000)</u>	<u>1,921,000</u>
Excess of Financing Uses Over Revenues	<u>(6,781,684)</u>	<u>(4,916,679)</u>	<u>1,865,005</u>
Fund Balance, Beginning of Year		<u>36,947,669</u>	
FUND BALANCE, END OF YEAR		<u><u>32,030,990</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, 2011

	HEALTH BENEFIT PLAN AND TRUST FUND
ASSETS	
Cash and Cash Equivalents (Note 3)	362,652
Accrued Interest	6
Total Assets	362,658
 LIABILITIES	
Payable to General Fund	--
 NET ASSETS	
Held in Trust for Employee Health Benefits	362,658

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, 2011

	<u>HEALTH BENEFIT PLAN AND TRUST FUND</u>
ADDITIONS	
Interest	116
DEDUCTIONS	
Bank Charges	1,818
Total Deductions	<u>1,818</u>
Net Decrease	(1,702)
Net Assets, Beginning of Year	<u>364,360</u>
NET ASSETS, END OF YEAR	<u><u>362,658</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, 2011

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: Tobacco Settlement Fund and Indigent Care Fund. The annual budget and revisions must be approved by the Board of Managers and then the County Commissioners Court.

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; 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.

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 11. 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 formal Board of Managers actions 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 be used for specific purposes, but are neither restricted nor committed. Such intent should be expressed by the Board of Managers or its designated officials 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. Accounting Changes

Two statements for the Governmental Accounting Standards Board (GASB) were effective for the District in the fiscal year ending September 30, 2011.

GASB Statement 51 "Accounting and Financial Reporting for Intangible Assets" addresses accounting and financial reporting standards for intangible capital assets such as computer software. The District implemented this standard for fiscal year 2011. There was no effect on the financial statements.

GASB Statement 54 "Fund Balance Reporting and Governmental Fund Type Definitions" enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. The District implemented this standard in fiscal year ending September 30, 2011. Changes to the government fund type fund balance reporting is reflected in the financial statements and schedules and related disclosures are included in Note 2. K.

Note 3 – 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, 2011, 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 TWO YEARS	OVER FIVE YEARS
Cash and Equivalents:				
Collateralized Bank Accounts	261,002	261,002	--	--
Money Market Mutual Funds	362,652	362,652	--	--
Petty Cash	150	150	--	--
AAA-Rated Local Government				
Investment Pools:				
Texpool	23,117,387	23,117,387	--	--
Logic	17,232	17,232	--	--
TexStar	6,000,230	6,000,230	--	--
Total Cash and Equivalents	29,758,653	29,758,653	--	--
Investments:				
US Agencies:				
Federal Home Loan Mortgage Corporation	8,996,454	--	8,996,454	--
Government National Mortgage Association	1,714	--	--	1,714
Total Investments	8,998,168	--	8,996,454	1,714
TOTAL VALUE	38,756,821	29,758,653	8,996,454	1,714
% of Total Portfolio		76.78%	23.21%	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. 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, repurchase agreements, commercial paper and non-rated SEC registered money market mutual funds 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.

Note 3 – CASH AND INVESTMENTS – (Continuation)

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 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 and commercial paper as further defined by state law. The funds must have a dollar-weighted average maturity of two years or less.

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, 2011, holdings in US Government securities with ratings of AAA represented 23.21% of the total portfolio. Investment in the State Treasurer's local government investment pool, Texpool, represented 59.66% of the total portfolio. Investment in a second local government investment pool, LOGIC, represented .04% of the total portfolio. Investment in a third local government investment pool, TexStar, represented 15.48% of the total portfolio. Holdings in a AAA-rated money market mutual fund represented .94% of the total portfolio. The remaining .67 % of the portfolio is invested in collateralized bank accounts.

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, 2011, the portfolio contained four holdings in the portfolio with stated maturity dates beyond one year representing 23.22 % of the total portfolio, and the weighted average of the combined portfolio was 155 days.

As of September 30, 2011, the portfolio contained three callable notes and one Government National Mortgage Association pass through mortgage backed note with an original par value of \$100,000 and current market value of \$1,714 and a coupon rate of 9%. The note was purchased October 1, 1986, matures on October 15, 2016.

Note 3 – CASH AND INVESTMENTS – (Continuation)

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, 2011, 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 hospital and clinic 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.

A schedule of minimum future rentals to be received on the non-cancelable operating lease related to the real estate as of September 30, 2011, for each of the next five years and in the aggregate follows:

	<u>TOTAL</u>
For the Year Ended September 30,:	
2012	3,367,614
2013	3,367,614
2014	3,367,614
2015	3,367,614
2016	3,367,614
Thereafter	<u>33,676,136</u>
MINIMUM FUTURE LEASE PAYMENTS	<u>50,514,206</u>

Note 4 – HOSPITAL LEASE AND INDIGENT CARE AGREEMENT– (Continuation)

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, :			
2012	625,601	1,075,715	1,701,316
2013	669,513	1,031,803	1,701,316
2014	716,506	984,810	1,701,316
2015	766,798	934,518	1,701,316
2016	820,620	880,677	1,701,297
Thereafter	<u>12,144,777</u>	<u>4,868,406</u>	<u>17,013,183</u>
MINIMUM FUTURE LEASE PAYMENTS	<u>15,743,815</u>	<u>9,775,929</u>	<u>25,519,744</u>

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.

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, 2010 upon which the levy for the 2011 fiscal year was based was \$18,536,994,589.

The tax rate assessed for the year ended September 30, 2011 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, 2011 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.

	BALANCE OCTOBER 1, 2010	CURRENT YEAR LEVY	TOTAL COLLECTIONS	ADJUSTMENTS	BALANCE SEPTEMBER 30, 2011
Delinquent Taxes Receivable	2,041,775	30,144,807	29,872,837	(286,078)	2,027,667
Allowance for Uncollectible Taxes	(902,278)	--	--	(2,066)	(904,344)
NET DELINQUENT TAX RECEIVABLE	1,139,497	30,144,807	29,872,837	(288,144)	1,123,323

Note 7 – CAPITAL ASSETS

A summary of changes in the capital assets follows:

	BALANCE, OCTOBER 1, 2010	ADDITIONS	REDUCTIONS	BALANCE, SEPTEMBER 30, 2011
Capital Assets, Not Being Depreciated:				
Land	574,450	--	--	574,450
Land Leased to Spohn	2,502,476	--	--	2,502,476
Total Capital Assets, Not Being Depreciated	3,076,926	--	--	3,076,926
Capital Assets, Being Depreciated:				
Equipment	1,286,346	32,406	17,617	1,301,135
Buildings Leased to Spohn	28,073,023	--	--	28,073,023
Total Capital Assets, Being Depreciated	29,359,369	32,406	17,617	29,374,158
Less Accumulated Depreciation for				
Equipment	810,347	95,976	17,350	888,973
Buildings Leased to Spohn	20,863,266	437,246	--	21,300,512
Total Accumulated Depreciation	21,673,612	533,222	17,350	22,189,485
Total Capital Assets, Being Depreciated, Net	7,685,757	(500,816)	267	7,184,673
TOTAL CAPITAL ASSETS, NET	10,762,683	(500,816)	267	10,261,599

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

Note 8 – DEFERRED REVENUES

Deferred Revenue balances at September 30, 2011 consist of the following:

General Fund:		
Property Taxes		1,123,323
Hospital Lease		<u>15,743,815</u>
TOTAL DEFERRED REVENUES		<u><u>16,867,138</u></u>

Note 9 – LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions of the District for the year ended September 30, 2011:

	BALANCE, OCTOBER 1, 2010	ADDITIONS	REDUCTIONS	BALANCE, SEPTEMBER 30, 2011	DUE WITHIN ONE YEAR
Bonds:					
Limited Tax Refunding					
Bonds Series 2003	8,410,000	--	1,565,000	6,845,000	1,615,000
Premium	(588)	--	194	(394)	--
Deferred Loss on Refunding					
Refunding	(72,920)	--	24,056	(48,864)	--
Total Bonds	<u>8,336,492</u>	<u>--</u>	<u>1,589,250</u>	<u>6,795,742</u>	<u>1,615,000</u>
Other Liabilities-					
Accrued Paid Time Off	66,900	157,191	157,191	66,900	--
TOTAL	<u>8,403,392</u>	<u>157,191</u>	<u>1,746,441</u>	<u>6,862,642</u>	<u>1,615,000</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 \$471,649 at September 30, 2011. The District had sufficient cash and cash equivalents at year end to cover current maturities of bonds payable.

Note 9 – 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,:			
2012	1,615,000	267,420	1,882,420
2013	1,675,000	207,665	1,882,665
2014	1,740,000	144,015	1,884,015
2015	1,815,000	74,415	1,889,415
TOTAL	6,845,000	693,515	7,538,515

Note 10 - OPERATING LEASES

The District leases office space for its administrative offices under an operating lease expiring in 2013.

Minimum future rental payments under a non-cancelable operating lease having remaining terms in excess of one year as of September 30, 2011 for each of the next two years and in the aggregate are:

Year Ended September 30,:	
2012	115,218
2013	77,809
TOTAL	193,027

Rental payments under all operating leases amounted to \$116,098 during the year ended September 30, 2011.

Note 11 – INTERFUND TRANSACTIONS AND BALANCES

Interfund transfers during the year ended September 30, 2011 were as follows:

	TRANSFERS OUT			TOTAL
	GENERAL FUND	INDIGENT CARE FUND	TOBACCO SETTLEMENT FUND	
<u>TRANSFERS IN</u>				
General Fund	--	5,000,000	688,000	5,688,000
Debt Service Fund	1,885,998	--	--	1,885,998
TOTAL	1,885,998	5,000,000	688,000	7,573,998

The Indigent Care Fund transfers to the General Fund were for reimbursement of health claims for indigents, and the transfer to the Debt Service Fund was for payment of Debt Service related to the various bonds.

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, 2011, twenty-six 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, 2011, the District had retirement plan expense of \$73,425.

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.

Combining Schedules

NUECES COUNTY HOSPITAL DISTRICT
(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011

	<u>SPECIAL REVENUE TOBACCO SETTLEMENT FUND</u>	<u>DEBT SERVICE FUND</u>	<u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u>
ASSETS			
Cash and Cash Equivalents	802	471,651	472,453
TOTAL ASSETS	<u>802</u>	<u>471,651</u>	<u>472,453</u>
LIABILITIES AND FUND BALANCE			
Current Liabilities:			
Accrued Interest	--	66,855	66,855
Total Current Liabilities	<u>--</u>	<u>66,855</u>	<u>66,855</u>
Fund Balance:			
Assigned to:			
County Health Care	802	--	802
Debt Service	--	404,796	404,796
Total Fund Balance	<u>802</u>	<u>404,796</u>	<u>405,598</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>802</u>	<u>471,651</u>	<u>472,453</u>

NUECES COUNTY HOSPITAL DISTRICT(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCENONMAJOR GOVERNMENTAL FUNDSYEAR ENDED SEPTEMBER 30, 2011

	SPECIAL REVENUE TOBACCO SETTLEMENT FUND	DEBT SERVICE FUND	TOTAL NONMAJOR GOVERNMENTAL FUNDS
Revenues:			
Tobacco Settlement	687,793	--	687,793
Investment Income	78	1,178	1,256
Total Revenues	<u>687,871</u>	<u>1,178</u>	<u>689,049</u>
Debt Service:			
Principal Retirement	--	1,565,000	1,565,000
Interest and Fiscal Charges	--	308,501	308,501
Payment to Escrow Agent	--	300	300
Total Expenditures	<u>--</u>	<u>1,873,801</u>	<u>1,873,801</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	687,871	(1,872,623)	(1,184,752)
Other Financing Sources (Uses):			
Transfers In	--	1,885,998	1,885,998
Transfers Out	(688,000)	--	(688,000)
Total Other Financing Sources (Uses)	<u>(688,000)</u>	<u>1,885,998</u>	<u>1,197,998</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	(129)	13,375	13,246
Fund Balance, Beginning of Year	931	391,421	392,352
FUND BALANCE, END OF YEAR	<u>802</u>	<u>404,796</u>	<u>405,598</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, 2011

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues:			
Taxes	28,690,455	29,486,068	795,613
Penalties and Interest - Taxes	279,907	358,260	78,353
Leases - Spohn Health System	584,571	584,571	--
Rental - Spohn Health System	3,367,615	3,367,615	--
Investment Income	1,133,588	1,131,958	(1,630)
Other	--	79,671	79,671
Total Revenues	<u>34,056,136</u>	<u>35,008,143</u>	<u>952,007</u>
Expenditures:			
Current:			
General Government:			
Administration:			
Personal Services	637,650	605,675	31,975
Materials and Supplies	54,750	39,720	15,030
Contractual Services	1,134,359	959,059	175,300
Other	186,337	156,415	29,922
Total Administration	<u>2,013,096</u>	<u>1,760,869</u>	<u>252,227</u>
Facilities Management-			
Materials and Supplies	3,500	846	2,654
Total General Government	<u>2,016,596</u>	<u>1,761,715</u>	<u>254,881</u>
Health:			
Personal Services	1,244,708	1,149,228	95,480
Materials and Supplies	48,400	35,992	12,408
Contractual Services	478,330	411,140	67,190
Indigent Care	30,112,155	30,112,155	--
City and County Services	6,350,017	5,572,030	777,987
Other	25,950	5,010	20,940
Total Health	<u>38,259,560</u>	<u>37,285,555</u>	<u>974,005</u>
Capital Outlay	75,000	32,406	42,594
Total Current Expenditures	<u>40,351,156</u>	<u>39,079,676</u>	<u>1,271,480</u>
Deficiency of Revenues Over Expenditures	(6,295,020)	(4,071,533)	2,223,487
Other Sources (Uses):			
Transfers In	7,371,000	5,688,000	(1,683,000)
Transfers Out	(1,885,998)	(1,885,998)	--
Total Other Financing Sources	<u>5,485,002</u>	<u>3,802,002</u>	<u>(1,683,000)</u>
Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Uses	<u>(810,018)</u>	<u>(269,531)</u>	<u>540,487</u>
Fund Balance, Beginning of Year		<u>4,890,078</u>	
FUND BALANCE, END OF YEAR		<u>4,620,547</u>	

NUECES COUNTY HOSPITAL DISTRICT(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)INDIGENT CARE FUNDSCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET (GAAP BASIS) AND ACTUALYEAR ENDED SEPTEMBER 30, 2011

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues -			
Investment Income	139,316	83,321	(55,995)
Total Revenues	<u>139,316</u>	<u>83,321</u>	<u>(55,995)</u>
Other Financing Uses -			
Transfers Out	(6,921,000)	(5,000,000)	1,921,000
Total Other Financing Uses	<u>(6,921,000)</u>	<u>(5,000,000)</u>	<u>1,921,000</u>
Excess (Deficiency) of Revenues and Other Other Financing Sources	<u>(6,781,684)</u>	<u>(4,916,679)</u>	<u>1,865,005</u>
Fund Balance, Beginning of Year		<u>36,947,668</u>	
FUND BALANCE, END OF YEAR		<u><u>32,030,989</u></u>	

NUECES COUNTY HOSPITAL DISTRICT(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)TOBACCO SETTLEMENT FUNDSCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCEBUDGET (GAAP BASIS) AND ACTUALYEAR ENDED SEPTEMBER 30, 2011

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues:			
Tobacco Settlement	450,000	687,793	237,793
Investment Income	--	78	78
Total Revenues	<u>450,000</u>	<u>687,871</u>	<u>237,871</u>
Other Financing Uses-			
Transfers Out	(450,000)	(688,000)	(238,000)
Total Other Financing Uses	<u>(450,000)</u>	<u>(688,000)</u>	<u>(238,000)</u>
Excess of Revenues Over Other Financing Uses	<u> --</u>	(129)	<u> (129)</u>
Fund Balance, Beginning of Year		<u>931</u>	
FUND BALANCE, END OF YEAR		<u>802</u>	

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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, 2011

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues - Interest	1,373	1,178	(195)
Expenditures:			
Principal	1,565,000	1,565,000	--
Interest and Fiscal Charges	308,505	308,501	4
Payment to Escrow Agent	1,000	300	700
Total Expenditures	<u>1,874,505</u>	<u>1,873,801</u>	<u>704</u>
Deficiency of Revenues Over Expenditures	(1,873,132)	(1,872,623)	509
Other Financing Sources - Operating Transfers In	<u>1,885,998</u>	<u>1,885,998</u>	<u>--</u>
Excess of Revenues and Other Financing Sources Over Expenditures	<u>12,866</u>	<u>13,375</u>	<u>509</u>
Fund Balance, Beginning of Year		<u>391,421</u>	
FUND BALANCE, END OF YEAR		<u>404,796</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

December 30, 2011

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, 2011, which collectively comprise the District's basic financial statements as listed in the table of contents and have issued our report thereon dated December 30, 2011. 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 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.

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, as defined above.

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