



MAXWELL LOCKE & RITTER LLP

Accountants and Consultants

An Affiliate of CPAmerica International

tel (512) 370 3200 fax (512) 370 3250

www.mlrpc.com

Austin: 401 Congress Avenue, Suite 1100

Austin, TX 78701

Round Rock: 303 East Main Street

Round Rock, TX 78664

February 4, 2014

To the Board of Managers of
Travis County Healthcare District:

We have audited the financial statements of the business-type activities and the aggregate discretely presented component units of Travis County Healthcare District (doing business as and hereinafter referred to as “Central Health”) for the year ended September 30, 2013. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our engagement letter to you dated July 20, 2013. Professional standards also require that we communicate to you the following information related to our audit.

QUALITATIVE ASPECTS OF ACCOUNTING PRACTICES

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Central Health are described in Note 2 to the financial statements. As described in Note 2 to the financial statements, Central Health changed accounting policies related to deferred outflows and inflows of resources and net position by adopting Governmental Accounting Standards Board Statements No. 62, No. 63 and No. 65 for the year ended September 30, 2013. Accordingly, the financial statements have been updated for these changes. We noted no transactions entered into by Central Health during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management’s knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were management’s estimate for the allowance for uncollectible property tax receivables and management’s estimate of the depreciable lives of capital assets. Management’s estimate for the allowance for uncollectible property tax receivables is based on the amount of property taxes collected in previous years. Management’s estimate of the depreciable lives of capital assets is based on the expected useful lives of the assets. We evaluated the key factors and assumptions used to develop these estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

“A Registered Investment Advisor”

This firm is not a CPA firm

The financial statement disclosures are neutral, consistent, and clear.

DIFFICULTIES ENCOUNTERED IN PERFORMING THE AUDIT

We encountered no significant difficulties in performing and completing our audit.

MISSTATEMENTS IDENTIFIED DURING THE AUDIT

Professional standards require us to accumulate all misstatements identified during the audit, other than those that are clearly trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to the financial statements taken as a whole.

DISAGREEMENTS WITH MANAGEMENT

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

MANAGEMENT REPRESENTATIONS

We have requested certain representations from management that are included in the attached management representation letter dated February 4, 2014.

MANAGEMENT CONSULTATIONS WITH OTHER INDEPENDENT ACCOUNTANTS

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Central Health's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

ISSUES RELEVANT TO THE OVERSIGHT OF THE FINANCIAL REPORTING PROCESS

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Central Health's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

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

Sincerely,

Maxwell Soche + Ritter LLP

Enclosure 1: Management Representation Letter

**TRAVIS COUNTY
HEALTHCARE DISTRICT
dba CENTRAL HEALTH**

**Financial Statements as of and
for the Year Ended September 30, 2013
and Independent Auditors' Report**



TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH

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INDEPENDENT AUDITORS' REPORT

The Board of Managers of
Travis County Healthcare District:

Report on the Financial Statements

We have audited the accompanying financial statements of Travis County Healthcare District (doing business as and hereinafter referred to as "Central Health") and of its discretely presented component units, as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise Central Health's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of Sendero Health Plans, Inc. ("Sendero"), a discretely presented component unit of Central Health. Those statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for Sendero, is based solely on the report of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Central Health and of its discretely presented component units as of September 30, 2013, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As described in Note 2 to the financial statements, in 2013, Central Health adopted new accounting guidance, Governmental Accounting Standards Board ("GASB") Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the GASB, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2014 on our consideration of Central Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Central Health's internal control over financial reporting and compliance.

Maxwell Locke + Ritter LLP

Austin, Texas
February 4, 2014

TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH

MANAGEMENT'S DISCUSSION AND ANALYSIS YEAR ENDED SEPTEMBER 30, 2013

This section of the Travis County Healthcare District's (doing business as and hereinafter referred to as "Central Health") financial report presents background information and management's analysis of Central Health's financial results for the fiscal year ended September 30, 2013. Please read this section in conjunction with Central Health's financial statements, which begin on page 12.

Background and Formation

In 2003, the 78th Session of the Texas Legislature amended Chapter 281 of the Texas Health and Safety Code to enable Travis County, Texas ("Travis County") to create a hospital district. For a copy of the code see: <http://www.capitol.state.tx.us/statutes/hs.toc.htm>. During fiscal year 2006, with the approval of the Travis County Commissioners' Court, Central Health changed its name from Travis County Hospital District to Travis County Healthcare District to better reflect the activities of Central Health.

Chapter 281 states that a county may create a countywide hospital district to furnish medical aid and hospital care to indigent and needy persons residing in Travis County. The law stipulates that creation of a hospital district is dependent upon approval by a majority of the qualified voters of the county. On May 15, 2004, Travis County held a countywide election to determine if the voters of the county supported the creation of a hospital district. The proposition passed with 54.73% of the voters (31,920 votes) supporting the creation of the new district, now doing business as Central Health.

The formation of Central Health was in large part due to a collaborative campaign that focused on educating the voters about the healthcare issues facing the community. This campaign was led by a steering committee that included: physicians, healthcare advocates, the business community, elected officials, Grey Panthers and the Indigent Care Collaboration, among others.

Central Health may levy taxes to finance health care services and the levy may not exceed 25 cents on each \$100 of the taxable value of property taxable by Central Health. The fiscal year 2013 tax levy for Central Health was 7.8946 cents per \$100 valuation of assessed property.

The law allows Central Health to create a health maintenance organization to provide or arrange for health care services. Additionally, Central Health may create a charitable organization to develop resources for Central Health or provide ancillary support. Under state law counties are required to provide medical services for indigent residents. In Texas, indigent is defined as an individual with net income at or below 21% of federal poverty income guidelines (Chapter 61 of the Texas Health and Safety Code).

Upon creation of Central Health, Travis County and the City of Austin, Texas ("City of Austin") transferred the portion of their tax bases dedicated to healthcare to Central Health. This change served to redistribute the cost of healthcare more equally across all residents of Travis County. Previously, City of Austin residents paid a higher percentage of their taxes for healthcare than did those residing within Travis County but outside the City of Austin's city limits. With the creation of Central Health, the tax burden was distributed equally across all residents.

In addition to the tax base, Central Health received ownership of and responsibility for University Medical Center Brackenridge (“UMCB”, leased to Seton Healthcare Network (“Seton”) to operate), Austin Women’s Hospital (leased to the University of Texas Medical Branch to operate), and the Central Texas Community Health Centers, operated until March 1, 2009 by the City of Austin through an interlocal agreement between Central Health and the City of Austin. In June 2007, Seton opened the new Dell Children’s Medical Center of Central Texas which is not owned by Central Health. The former Children’s Hospital associated with UMCB was converted into various other uses by Seton.

Effective March 1, 2009, Central Health and its affiliated entity, the Central Texas Community Health Centers, Inc. (dba “CommUnityCare”) a 501(c)(3) nonprofit corporation, became joint holders of the Federally Qualified Health Center (“FQHC”) designation awarded by the Health Resources and Services Administration of the U.S. Department of Health and Human Services Department. This designation allows the countywide system of primary clinics operated by CommUnityCare and primarily funded by Central Health to participate in various federal programs and to receive enhanced Medicaid reimbursement for primary care patient visits at CommUnityCare, to receive medical malpractice insurance coverage under the Federal Tort Claims for its physicians, and to benefit from substantial reductions in the cost of pharmaceuticals prescribed to patients in Central Health’s Medical Assistance Program who are treated at CommUnityCare.

In addition, on March 1, 2009, other assets formerly owned by the City of Austin were transferred pursuant to State law to Central Health upon resolution of the FQHC status of CommUnityCare and Central Health, including the David Powell Clinic and the Montopolis Clinic.

Financial Highlights

- Central Health’s net position decreased \$3.6 million, a 1.7% decrease compared to prior year net position.
- During the year, Central Health’s total operating revenues were \$31.8 million and operating expenses were \$115.5 million. Nonoperating revenues, comprised primarily of property tax revenue, were \$80 million, net of nonoperating expenses.
- To carry out its fiscal responsibility to the taxpayers, Central Health maintained reserve funds to protect its financial security and operational stability in consideration of the risks it faces. In fiscal year 2008, Central Health established unallocated reserves to be set at 150 days cash on hand and established a capital acquisition reserve, and it maintained these reserves in fiscal year 2013. During fiscal year 2013, Central Health reserved \$15,083,000 for Additional Paid-in-Capital for Sendero. Central Health’s reserve policy will continue to be reviewed annually during the budget process.
- Central Health maintained a rating of AAA from Standard & Poor’s on its first debt issuance (see Note 6 in this report for more information).

Operational Highlights

- Funded 339,199 total primary visits in fiscal year 2013, including medical, dental, and behavioral health visits, an increase of 7% over 2012.
- Enrolled an average of 22,418 in its Medical Access Program (MAP) in fiscal year 2013, a 4% decrease from 2012.
- Handled 122,258 calls in the call center in fiscal year 2013, a 9% increase in calls over 2012.
- Completed planning and programming for the Southeast Health and Wellness Clinic facility, the former Veterans Administration Outpatient Clinic, in August 2013. The schematic design for the SEHWC was also completed in August 2013. A request for proposals for a construction manager at risk was issued in September 2013.
- Was designated as the anchor entity for Region 7 of the Texas Healthcare and Quality Improvement Program, a statewide Medicaid 1115 waiver program. On December 31, 2012, Central Health submitted the Regional Healthcare Partnership Plan for Region 7, which contained 68 Delivery System Reform Incentive Payment projects for 9 providers and a total of \$638 million in combined federal and local funding.
- Entered into a Master Agreement (“MA”) and two ancillary agreements, a lease for UMCB and an Omnibus Services Agreement, all effective as of June 1, 2013. The MA is a result of the collaboration of Central Health and Seton in participating in the Texas Healthcare and Quality Improvement Program, a statewide Medicaid 1115 waiver program. See Note 8 of the Notes to the Financial Statements for more information.
- Formed, through the MA, the Community Care Collaborative (“CCC”), a 501(c)(3) corporation through which Central Health and Seton will jointly manage the provision of indigent health care. See Note 8 of the Notes to the Financial Statements for more information.

Financial Statements

Central Health’s financial statements are prepared on the accrual basis of accounting and present Central Health’s operational activities in a manner similar to that of private sector companies. The financial statements consist of three statements: (1) statement of net position, (2) statement of revenues, expenses, and changes in net position, and (3) statement of cash flows.

The statement of net position and the statement of revenues, expenses, and changes in net position reflect Central Health’s financial position at the end of the year and report Central Health’s net position and changes in them as a result of Central Health’s revenues and expenses for the year. The term “net position” represents the difference between assets, or Central Health’s investment in resources, and liabilities, or Central Health’s obligation to its creditors. Increases or decreases in net position are an indicator of whether financial health is improving or deteriorating. Other nonfinancial factors should be considered, however, in evaluating financial health, such as changes in Central Health’s patient base, changes in economic conditions, taxable property values and tax rates, and changes in government legislation.

The statement of cash flows reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. The statement explains where cash came from, how it was used, and the change in cash balance during the year.

The financial statements include not only Central Health itself (known as the primary government), but also three legally separate entities known as component units. CommUnityCare is included as a discretely presented component unit as there is some financial accountability by CommUnityCare to Central Health. Sendero is also presented as a discrete component unit as there is some financial accountability by Sendero to Central Health. An additional component unit, the Community Care Collaborative, was added in fiscal year 2013. Additional information regarding the component units can be found in Note 1 of the notes to the financial statements.

Statement of Net Position

The following table summarizes Central Health's assets, liabilities and net position as of September 30, 2013 and 2012:

TABLE 1
Condensed Statement of Net Position

	2013	2012	% Fluctuation
Current assets	\$ 92,183,938	\$ 91,870,230	<1%
Noncurrent assets, as restated	39,712,838	40,555,726	(2%)
Capital assets	114,909,646	117,769,213	(2%)
Total assets, as restated	246,806,422	250,195,169	(1%)
Current liabilities	9,647,550	8,474,268	14%
Noncurrent liabilities	13,240,000	14,160,000	(7%)
Total liabilities	22,887,550	22,634,268	1%
Net position:			
Net investment in capital assets	100,749,646	102,916,128	(2%)
Restricted for capital acquisition	3,138,642	7,472,726	(58%)
Restricted for Sendero	15,083,000	15,083,000	-
Unrestricted, as restated	104,947,584	102,089,047	3%
Total net position, as restated	\$ 223,918,872	\$ 227,560,901	(2%)

As shown in Table 1, net position was \$223.9 million at September 30, 2013 and \$227.6 million at September 30, 2012, as restated. Central Health budgeted a decrease of \$4.7 million in net position for 2013; the actual decrease in net position of \$3.6 million is due primarily to higher than expected lease revenue of \$921,896.

Statement of Revenues, Expenses, and Changes in Net Position

The following table summarizes Central Health's revenues, expenses, and changes in net position during the years ended September 30, 2013 and 2012:

TABLE 2
Condensed Statement of Revenues, Expenses, and Changes in Net Position

	2013	2012	% Fluctuation
Operating revenues:			
Lease revenue – additional rent	\$ 30,515,412	\$ 25,655,575	19%
Lease revenue – base rent	1,333,124	1,116,236	19%
Grant revenue	-	1,301,275	(100%)
Total operating revenues	<u>31,848,536</u>	<u>28,073,086</u>	13%
Operating expenses:			
Health care delivery	103,768,507	99,935,930	4%
Salaries and benefits	5,172,430	4,276,352	21%
Other purchased goods and services	2,696,801	3,887,279	(31%)
Depreciation	3,844,532	2,692,289	43%
Total operating expenses	<u>115,482,270</u>	<u>110,791,850</u>	4%
Operating loss	<u>(83,633,734)</u>	<u>(82,718,764)</u>	1%
Nonoperating revenues, net:			
Net ad valorem tax revenue	78,820,907	75,555,093	4%
Net tobacco settlement revenue	1,440,705	1,902,732	(24%)
Investment income	179,788	410,070	(56%)
Interest expense	(459,295)	(453,294)	1%
Other revenue	9,600	11,015	(13%)
Total nonoperating revenues, net	<u>79,991,705</u>	<u>77,425,616</u>	3%
Change in net position	<u>(3,642,029)</u>	<u>(5,293,148)</u>	31%
Total net position – beginning of year, as restated	227,560,901	233,070,964	(2%)
Effect of implementation of GASB 62	-	(216,915)	100%
Total net position - end of year, as restated	<u>\$ 223,918,872</u>	<u>\$ 227,560,901</u>	(2%)

Central Health's operating revenues were \$31.8 million for the year ended September 30, 2013, comprised of \$30.5 million in additional rent revenue and \$1.3 million in base rent revenue relating to UMCB and Austin Women's Hospital. Central Health's operating loss was \$83.6 million for the year ended September 30, 2013. Central Health receives property tax revenues to subsidize the cost of services provided to qualified uninsured patients. Although the costs incurred to provide these services are reflected above as operating expenses, the property tax revenues levied to subsidize those costs are required to be reported as nonoperating revenues.

Nonoperating revenues were \$80 million for the year ended September 30, 2013, comprised of net property taxes of \$78.8 million, net tobacco settlement revenue of \$1.4 million, investment income of \$0.2 million and other revenue and interest expense.

Capital Assets

With the creation of Central Health, the City of Austin conveyed ownership of assets associated with UMCB, the Austin Women's Hospital, and medical equipment used in the health care clinics to Central Health. Travis County conveyed medical equipment used in the health care clinics to Central Health. The City of Austin donated an office building to Central Health which Central Health uses for its headquarters.

On March 1, 2009, other assets formerly owned by the City of Austin were transferred pursuant to State law to Central Health upon resolution of the FQHC status of CommUnityCare and Central Health, including the David Powell Clinic and the Montopolis Clinic.

All conveyed and donated assets were recorded at fair market value at the date of receipt based on an independent third-party appraisal. The following table summarizes Central Health's capital assets at September 30, 2013 and 2012.

TABLE 3
Capital Assets

	<u>2013</u>	<u>2012</u>
Land	\$ 10,464,414	\$ 10,357,928
Buildings and improvements	110,938,704	95,032,869
Equipment and furniture	6,116,154	3,814,973
Construction in progress	<u>8,352,291</u>	<u>25,680,828</u>
Subtotal	<u>135,871,563</u>	<u>134,886,598</u>
Less accumulated depreciation	<u>(20,961,917)</u>	<u>(17,117,385)</u>
Total capital assets, net	<u>\$ 114,909,646</u>	<u>\$ 117,769,213</u>

Additional information on Central Health's capital assets is presented in the *Notes to Basic Financial Statements*.

TABLE 4
Long-Term Debt

	<u>2013</u>	<u>2012</u>
Certificates of Obligation	<u>\$ 14,160,000</u>	<u>\$ 15,070,000</u>

Central Health issued \$16,000,000 in certificates of obligation on September 20, 2011. During fiscal year 2013, principal payments of \$910,000 were made against the certificates of obligation. The costs of issuance and underwriter's discount of \$216,915, was booked as a prior period adjustment due to the implementation of GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. More detailed information about the District's long-term debt and the restatement is presented in the *Notes to Financial Statements*.

Current Budget

Central Health prepares an annual budget for approval by the Board of Managers and for submission to the Travis County Commissioners' Court for approval prior to the beginning of the operating year. Table 5 presents the amended budget as compared to fiscal year 2013 actual amounts.

TABLE 5
Budget vs. Actual

	Budget 2013	Actual 2013	Favorable (Unfavorable) Variance
Operating revenues:			
Lease revenue - additional rent	\$ 30,926,640	30,515,412	(411,228)
Lease revenue - base rent	-	1,333,124	1,333,124
Total operating revenues	<u>30,926,640</u>	<u>31,848,536</u>	<u>921,896</u>
Operating expenses:			
Health care delivery	107,424,374	103,768,507	3,655,867
Salaries and benefits	5,079,263	5,172,430	(93,167)
Other purchased goods and services	4,236,336	2,696,801	1,539,535
Depreciation	2,800,000	3,844,532	(1,044,532)
Total operating expenses	<u>119,539,973</u>	<u>115,482,270</u>	<u>4,057,703</u>
Operating loss	<u>(88,613,333)</u>	<u>(83,633,734)</u>	<u>4,979,599</u>
Nonoperating revenues (expenses):			
Ad valorem tax revenue	79,944,069	79,633,487	(310,582)
Tax assessment and collection expense	(926,287)	(812,580)	113,707
Tobacco settlement revenue	1,900,000	1,440,705	(459,295)
Investment income	200,000	179,788	(20,212)
Interest expense	-	(459,295)	(459,295)
Other revenue	-	9,600	9,600
Total nonoperating revenues, net	<u>81,117,782</u>	<u>79,991,705</u>	<u>(1,126,077)</u>
Change in net position	<u>\$ (7,495,551)</u>	<u>(3,642,029)</u>	<u>3,853,522</u>

In comparing the current year's financial results to budget, the following items are noted:

On April 17, 2013, the Central Health Board of Managers approved an amendment to Central Health's adopted 2013 budget that increased funding sources from the contingency reserve by \$25 million and increased the Healthcare Delivery program by the same amount. This amendment was proposed as a precaution for timing uncertainties related to the 1115 Medicaid waiver and intergovernmental transfers. The amendment was approved by the Travis County Commissioners Court on April 18, 2013.

Central Health did not spend any of the requested increase in appropriations, which was returned in its entirety to the contingency reserve at the end of 2013. The budget shown in the table above for budget-to-actual comparison is the budget as originally adopted; it does not reflect the amendment.

Operating revenues were above budget by \$921,896 due to lease revenues coming in at more than budgeted amounts.

Actual operating expenses were under budget by approximately \$4 million primarily due to a favorable variance in healthcare delivery expenses. As compared to budget, Central Health experienced a favorable variance of approximately \$3.9 million.

Economic Conditions and Plan for Fiscal Year 2014

In planning for fiscal year 2014, there were a number of factors Central Health needed to consider, including the following:

- The ongoing reporting and operational requirements for the 1115 Medicaid waiver.
- The implementation of the Affordable Care Act, especially as it relates to the new health exchanges.
- Collaborating with Seton to implement the financial and administrative systems required for the CCC.
- Planning for the reuse of UMCB.

The Central Health Board of Managers adopted a total tax rate of 12.9 cents per \$100 valuation of real and personal property for fiscal year 2014. This rate was adopted in accordance with Chapter 281 of the Texas Health and Safety Code following a tax ratification election held in November 2012, in which Travis County voters approved a five-cent increase in Central Health's tax rate. It includes an operating maintenance tax rate of 12.77 cents and a debt service tax rate of 0.13 cents.

Contacting District Financial Management

The financial report is designed to provide the taxpayers and Central Health's customers, creditors, and suppliers with a general overview of Central Health's finances and to demonstrate Central Health's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact Central Health's financial offices as follows:

By mail: Travis County Healthcare District, 1111 E. Cesar Chavez, Austin, Texas 78702
Attention: Chief Financial Officer

By fax: 512.978.8151, Travis County Healthcare District, Attention: Chief Financial Officer

TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH

STATEMENTS OF NET POSITION SEPTEMBER 30, 2013

	Primary	Component Units		
	Governmental Activities	CommUnityCare	Sendero	Community Care Collaborative
ASSETS				
Current assets:				
Cash and cash equivalents	\$ 100,984	\$ 12,102,912	\$ 13,515,299	\$ 13,399,444
Restricted cash and cash equivalents	23	-	-	-
Short-term investments	90,802,467	-	-	-
Ad valorem taxes receivable, net of allowance for uncollectible taxes of \$1,325,984	541,219	-	-	-
Accounts receivable, net of allowance for doubtful amounts of \$7,061,126	-	1,676,632	-	-
Accounts receivable	-	-	1,113,487	-
Premiums receivable	-	-	227,177	-
Reinsurance recoverables	-	-	63,000	-
Grants receivable	-	1,213,628	-	-
Other receivables	498,863	-	-	-
Due from Travis County Healthcare District	-	510,834	-	-
Inventory	-	286,593	-	-
Funds held by others	-	-	60,725	-
Prepaid expenses and other assets	240,382	405,258	234,800	-
Total current assets	92,183,938	16,195,857	15,214,488	13,399,444
Noncurrent assets:				
Investments restricted for capital acquisition	6,629,838	-	-	-
Investments restricted for Sendero	15,083,000	-	1,700,000	-
Long-term receivables	4,000,000	-	-	-
Investment in Sendero	14,000,000	-	-	-
Capital assets:				
Land	10,464,414	-	-	-
Buildings and improvements	110,938,704	-	-	-
Equipment and furniture	6,116,154	2,039,331	24,373	-
Construction in progress	8,352,291	-	-	-
Less accumulated depreciation	(20,961,917)	(703,221)	(5,256)	-
Total capital assets, net	114,909,646	1,336,110	19,117	-
Total noncurrent assets	154,622,484	1,336,110	1,719,117	-
Total assets	246,806,422	17,531,967	16,933,605	13,399,444
LIABILITIES				
Current liabilities:				
Accounts payable	8,226,210	1,823,829	379,525	1,005,703
Unpaid losses and loss adjustment expenses	-	-	11,019,960	-
Claims payable	-	-	113,794	-
Salaries and benefits payable	463,350	3,140,637	-	-
Accrued interest	37,990	-	-	-
Due to other governments	-	-	-	-
Unearned revenue	-	68,232	-	-
Other accrued liabilities	-	1,449,885	795,525	-
Certificates of obligation	920,000	-	-	-
Capital Lease Obligation	-	121,128	-	-
Due to Travis County Healthcare District	-	-	344,531	-
Total current liabilities	9,647,550	6,603,711	12,653,335	1,005,703
Noncurrent liabilities:				
Certificates of obligation	13,240,000	-	-	-
Capital Lease Obligation, Net of Current Portion	-	266,913	-	-
Due to Travis County Healthcare District	-	4,000,000	-	-
Total noncurrent liabilities	13,240,000	4,266,913	-	-
Total liabilities	22,887,550	10,870,624	12,653,335	1,005,703
NET POSITION				
Net investment in capital assets	100,749,646	-	-	-
Restricted for capital acquisition	3,138,642	-	-	-
Restricted for Sendero	15,083,000	-	-	-
Restricted for HMO	-	-	14,000,000	-
Unrestricted	104,947,584	6,661,343	(9,719,730)	12,393,741
Total net position	\$ 223,918,872	\$ 6,661,343	\$ 4,280,270	\$ 12,393,741

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

TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2013**

	Primary	Component		
	Government	Units		
	Governmental	CommUnityCare	Sendero	Community Care
	Activities			Collaborative
Operating revenues:				
Lease revenue - additional rent	\$ 30,515,412	\$ -	\$ -	\$ -
Lease revenue - base rent	1,333,124	-	-	-
Patient service revenue	-	25,345,375	-	33,592,316
Premium revenue, net	-	-	32,891,522	-
ASO revenue	-	-	3,500,000	-
Grant revenue	-	5,955,023	-	-
Revenue received from Travis County Healthcare District	-	38,853,751	-	-
Total operating revenues	31,848,536	70,154,149	36,391,522	33,592,316
Operating expenses:				
Health care delivery	103,768,507	22,090,946	35,787,020	21,196,597
Salaries and benefits	5,172,430	41,526,592	3,658,526	-
Other purchased goods and services	2,696,801	4,334,247	3,280,471	1,978
Depreciation and amortization	3,844,532	344,493	3,907	-
Total operating expenses	115,482,270	68,296,278	42,729,924	21,198,575
Operating income (loss)	(83,633,734)	1,857,871	(6,338,402)	12,393,741
Nonoperating revenues (expenses):				
Ad valorem tax revenue	79,633,487	-	-	-
Tax assessment and collection expense	(812,580)	-	-	-
Tobacco settlement revenue, net	1,440,705	-	-	-
Investment income	179,788	-	10,388	-
Interest expense	(459,295)	-	-	-
Other revenue	9,600	-	-	-
Total nonoperating revenues, net	79,991,705	-	10,388	-
Change in net position	(3,642,029)	1,857,871	(6,328,014)	12,393,741
Total net position - beginning of year, as restated	227,560,901	4,803,472	10,608,284	-
Total net position - end of year	\$ 223,918,872	\$ 6,661,343	\$ 4,280,270	\$ 12,393,741

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

TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH

STATEMENT OF CASH FLOWS YEAR ENDED SEPTEMBER 30, 2013

Cash flows from operating activities:

Cash received from operating leases - additional rent, net	\$ 30,515,412
Cash payments for private UPL program	(10,032,414)
Cash received from operating leases - base rent	1,333,124
Cash payments for goods and services	(86,605,511)
Cash payments to employees	(5,180,552)
Net cash used in operating activities	<u>(69,969,941)</u>

Cash flows from noncapital financing activities:

Ad valorem taxes received	79,713,617
Payments for tax assessment and collection	(812,580)
Tobacco settlement received, net	1,440,705
Other nonoperating revenue received	9,600
Receipts from CommUnityCare, net	2,347,795
Net cash provided by noncapital financing activities	<u>82,699,137</u>

Cash flows from investing activities:

Receipts of interest income	199,974
Purchase of investment pools	(4,225,090)
Purchase of investment securities	(60,800,000)
Proceeds from maturities of investment securities	54,006,300
Purchase of capital assets	(1,013,203)
Payments on certificates of obligation	(910,000)
Net cash used in investing activities	<u>(12,742,019)</u>

Net decrease in cash and cash equivalents	(12,823)
Cash and cash equivalents - beginning of year	<u>113,830</u>
Cash and cash equivalents - end of year	<u>\$ 101,007</u>

Reconciliation of operating loss to net cash used in operating activities:

Operating loss	\$ (83,633,734)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	3,844,532
Changes in operating assets and liabilities that provided (used) cash:	
Other receivables	8,631,455
Prepaid expenses and other assets	23,841
Accounts payable	1,608,340
Salaries and benefits payable	(8,122)
Due to other governments	(436,253)
Net cash used in operating activities	<u>\$ (69,969,941)</u>

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

TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH

NOTES TO FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2013

1. ORGANIZATION AND MISSION

Travis County Healthcare District (doing business as and hereinafter referred to as “Central Health”) was created by authorization of the legislature of the State of Texas and subsequent approval by the voters of Travis County, Texas, in May 2004.

In August 2004, Travis County and the City of Austin, Texas (the “City of Austin”) appointed members to serve on the Board of Managers (the “Board”) of Central Health, which is composed of nine members. The Board consists of four appointees from Travis County, four from the City of Austin, and one selected jointly.

Prior to the issuance of Governmental Accounting Standards Board (“GASB”) Statement No. 61, which amended GASB Statement No. 14, Central Health was presented as a discrete component unit of Travis County. However, under GASB Statement No. 61 Central Health is no longer presented as a component unit of Travis County as Central Health is a legally separate entity from Travis County, and Travis County does not provide any funding to Central Health, hold title to any of Central Health’s assets, or have any rights to any surpluses of Central Health.

The Central Texas Community Health Centers, Inc. (doing business as and herein after referred to as “CommUnityCare”), is presented in this report as a discrete component unit of Central Health. CommUnityCare is legally separate from Central Health, but Central Health and CommUnityCare are joint holders of the Federally Qualified Health Center status that allows the clinics now operated by CommUnityCare to receive an enhanced level of Medicaid reimbursement and to participate in the Federal 340B program for reduced-cost prescription medicines. In addition, CommUnityCare’s economic resources are almost entirely for the benefit of Central Health’s constituents, Central Health has the ability to access a majority of the economic resources of CommUnityCare, and those resources are significant to Central Health. Accordingly, CommUnityCare is presented in this report as a discrete component unit of Central Health.

Sendero Health Plans, Inc. (“Sendero”) is also presented in this report as a discrete component unit of Central Health. Sendero is legally separate from Central Health and is a single-member 501(c)(4) corporation, wholly owned by Central Health. The Central Health Board approves appointments to the Sendero Board of Directors, but there is little overlap between the membership of the two boards. There is a financial benefit/burden relationship between Central Health and Sendero in that Central Health has assumed the obligation to provide financial support to Sendero in the form of advances for risk-based capital. Further, as the sole owner of Sendero, Central Health can impose its will on Sendero. However, Sendero does not provide services entirely or mostly to Central Health alone; rather, as a Medicaid Managed Care Organization, it provides services to an eight-county area under a contract with the Texas Health and Human Services Commission. Sendero is expected to pay any debts it incurs with its own resources.

The Community Care Collaborative (“CCC”) is a 501(c)(3) corporation formed on June 1, 2013 pursuant to a Master Agreement (the “CCC MA”) between Central Health and Seton Healthcare Family (“Seton”). The CCC is a separate legal entity, and the Central Health Board appoints a majority of its governing board. There is a financial benefit/burden relationship between Central Health and the CCC, in that Central Health provides a subsidy to the CCC. However, due to certain powers reserved to Seton in the CCC MA, Central Health cannot impose its will on the CCC. The CCC does not meet any of the GASB’s criteria for blended reporting and, therefore, is presented as a discrete component unit in these financial statements. See Note 8 for further information about the CCC and the CCC MA with Seton.

Central Health’s primary responsibility is to provide medical and hospital care to the indigent and needy of Travis County. All activities conducted by Central Health are directly associated with the furtherance of this mission and are, therefore, considered to be operating activities.

On October 1, 2004, Central Health began operations with the transfer of \$10,700,000 from the City of Austin. Thereafter, \$2,560,807 was transferred from Travis County. Effective October 1, 2004, certain assets, obligations and rights of the City of Austin were transferred to Central Health, including title to the land and buildings of Brackenridge/Children’s Hospital (now “University Medical Center Brackenridge,” or “UMCB”) and Austin Women’s Hospital. In addition, the responsibility, obligations and rights of the City of Austin and Travis County to provide health care to their respective indigent population transferred to Central Health. Certain assets associated with the Federally Qualified Health Centers (“health clinics”) of the City of Austin and Travis County also transferred to Central Health.

Central Health provides patient care to the indigent population of Travis County through contracts with medical services providers and receives property taxes for the provision of this care. Central Health has contracted with Seton to operate UMCB, Central Health’s safety-net hospital with a total of 399 licensed beds (see Note 8 for further information). Central Health has also contracted with CommUnityCare to operate 21 health clinics (including one specialty clinic providing HIV/AIDS treatment services and two clinics that provide services to the homeless populations), and three dental clinics. Central Health is exempt from federal income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - The accompanying financial statements are prepared on the accrual basis of accounting.

In accordance with GASB Statement No. 34, *Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments*, Central Health’s financial statements include a statement of net position, a statement of revenues, expenses, and changes in net position, and a statement of cash flows.

Cash and Cash Equivalents - Central Health defines cash and cash equivalents as cash and investments that are highly liquid with less than three-month maturities when purchased.

Capital Assets - Capital assets are carried at historical cost if purchased or fair market value at the time of donation. Central Health capitalizes outlays for new facilities and equipment and outlays that substantially increase the useful life of existing capital assets which have an initial, individual cost of \$5,000 or more. Ordinary maintenance and repairs are charged to expense when incurred. Disposals are removed at carrying cost less accumulated depreciation, with any resulting gain or loss included in other nonoperating revenue or expense.

Depreciation is recorded on the straight-line method over the estimated useful lives of the assets. Estimated useful lives for buildings and improvements are 20 to 50 years and for equipment and furniture are 2 to 20 years.

Compensated Absences - Central Health maintains a paid-time-off plan for absences from work for illness or vacation. Under the plan, the cost of all compensated absences is accrued at the time the benefits are earned. At the time of termination, unused paid-time-off benefits may be paid up to a maximum of 240 hours for administrative staff and 280 hours for provider staff.

Long-Term Debt - Certificates of obligation, which have been issued to fund capital projects, are to be repaid from tax revenues of the District.

Long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Position. Obligation premiums and discounts are deferred and amortized over the life of the obligations using the straight line method. Issuance costs are expensed in the period incurred. Certificates of obligation payable are reported net of the applicable bond premium or discount.

Statements of Revenues, Expenses, and Changes in Net Position - For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Operating revenues consist of rental payments generated from the lease of UMCB. Nonoperating revenues consist of those revenues that are related to financing and investing types of activities and result from nonexchange transactions or investment income.

Statement of Cash Flows - For purposes of the statement of cash flows, Central Health considers temporary investments with original maturities of three months or less to be cash equivalents.

Ad Valorem Tax Revenue - Ad valorem tax revenue is recorded as a nonoperating revenue in the year for which the taxes are levied, net of provisions for uncollectible amounts. Central Health levies a tax as provided under state law with the approval of the Travis County Commissioners Court. The taxes are collected by the Travis County Tax Assessor-Collector and are remitted to Central Health as received. Taxes are levied and become collectible from October 1 to January 31 of the succeeding year. Subsequent adjustments to the tax rolls, made by the Travis Central Appraisal District ("Appraisal District"), are included in revenues in the period such adjustments are made by the Appraisal District. Allowances for uncollectibles are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but Central Health is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

Tobacco Settlement Revenue - Tobacco settlement revenue is the result of a settlement between various counties and hospital districts in Texas and the tobacco industry for tobacco-related health care cost. Central Health recognized \$1,440,705 associated with the settlement in the year ended September 30, 2013. Settlement revenues for fiscal year 2013 are based on the investment earnings of the tobacco settlement fund as administered by the Comptroller's Office of the State of Texas. Central Health is unable to estimate the continuance or level of future distributions.

During the year ended September 30, 2013, Central Health budgeted and recorded its tobacco settlement revenue net of amounts paid to the Seton and to Travis County, which were \$1,009,448 and \$321,305, respectively. Such amounts represent their respective share of total local healthcare expenses claimed for the year ended September 30, 2013.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from those estimates.

Codification of Accounting and Financial Reporting Guidance - GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, incorporates into GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. GASB Statement No. 62 is effective for fiscal years beginning after December 15, 2011 and has been implemented in these financial statements. See Note 17 for the prior period adjustment related to the adoption of GASB Statement No. 62.

Deferred Outflows and Deferred Inflows of Resources - GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of Central Health's net position that is applicable to a future reporting period, and deferred inflows of resources, which represent Central Health's acquisition of net position applicable to a future reporting period. GASB Statement No. 63 became effective for fiscal years beginning after December 15, 2011 and has been implemented in these financial statements.

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. GASB Statement No. 65 is effective for fiscal years beginning after December 15, 2012 but has been early implemented in these financial statements. See Note 17 for the prior period adjustment related to the adoption of GASB Statement No. 65.

3. DEPOSITS AND INVESTMENTS

Central Health has developed a formal investment policy that is consistent with State statutes. The policy states Central Health will use the “prudent investor rule” in investment decisions. The objectives of Central Health policy are to ensure the safety of the principal, maintain adequate liquidity, and receive yield to the highest possible return subject to the first two principles.

Central Health’s depository agreement with JPMorgan Chase Bank requires collateralization with a fair market value equal to at least 105% of Central Health funds in excess of \$250,000 on deposit in the bank. All of the pledged collateral for Central Health’s demand deposits and time deposits are U.S. Treasury securities or U.S. Government agency securities. The depository agreement states that collateral shall consist of one or more of the following: U.S. Treasury securities, Federal National Mortgage Association (“FNMA”) securities, pools or REMIC CMO’s, Federal Farm Credit Bank (“FFCB”) securities, Federal Home Loan Bank (“FHLB”) agencies, Federal Home Loan Mortgage Corporation (“FHLMC”) pools or REMIC CMO’s, Government National Mortgage Association (“GNMA”) pools, obligations of states, agencies, counties, cities, and other political subdivisions of any state that are rated not less than “A” or its equivalent. The REMIC CMOs must not have variable rates or original maturities longer than ten years.

This collateral is held by the Federal Reserve Bank of New York, which in the case of default by JPMorgan Chase will act as agent for Central Health, in a fiduciary account held in the name of JPMorgan Chase and Central Health and pledged to Central Health. During fiscal year 2013, collateral coverage was more than the 105% of bank balances on all days during the year. As of September 30, 2013, Central Health’s bank balances in excess of federal depository insurance were fully collateralized.

Deposits are stated at cost plus accrued interest, if any, and the carrying amounts are displayed on the balance sheet as cash and cash equivalents.

Central Health is authorized to purchase, sell, and invest its funds and funds under its control in accordance with the Texas Public Funds Investment Act, Government Code Chapter 2256 and its subsequent amendments. During the fiscal period, investments consisted of U.S. government agencies securities, commercial paper and participation in three local government investment pools (TexPool, TexSTAR and TexasTERM). The carrying amount of investments as of September 30, 2013, is displayed on the balance sheet as short-term and restricted investments.

Central Health’s adoption of GASB Statement No. 31 requires some investments be reported at fair value. Money market investments and participating interest-earning investment contracts with a remaining maturity at the time of purchase of one year or less are reported at amortized cost.

Texas Local Government Investment Pool (“TexPool”) operates in a manner consistent with the SEC’s Rule 2a7 of the Investment Company Act of 1940. TexPool uses amortized cost rather than market value to report net assets to compute share prices. Accordingly, the fair value of the position in TexPool is the same as the value of TexPool shares. The State Comptroller of Public Accounts exercises oversight responsibility over TexPool. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and management fee structure.

Texas Short Term Asset Reserve Program (“TexSTAR”) is administered by First Southwest Company and JPMorgan Chase. TexSTAR is overseen by a five member governing board made up of three participants and one of each of the program’s professional administrators. The responsibility of the board includes the ability to influence operations, designation of management and accountability for fiscal matters. In addition, TexSTAR has a Participant Advisory Board which provides input and feedback on the operations and direction of the program and Standard and Poor’s reviews the pool on a weekly basis to ensure the pool’s compliance with its rating requirements. TexSTAR’s investment policy stipulates that it must invest in accordance with the Texas Public Funds Investment Act.

TexasTERM Local Government Investment Pool (“TexasTERM”) is organized in conformity with the Texas Public Funds Investment Act of the Texas Government Code. It provides for a fixed-rate, fixed-term investment for a period of 60 days to one year and includes TexasDAILY, a portfolio of the Local Government Pool, providing daily access to funds. An advisory board, composed of participants in TexasTERM and other parties who do not participate in the pool, has responsibility for the overall management of the pool, including formulation and implementation of its investment and operating policies. PFM Asset Management LLC, a leading national financial and investment advisory firm, is the investment advisor to the pool.

TexPool, TexSTAR and TexasTERM are rated AAAM by Standard & Poor’s. As a requirement to maintain the rating, weekly portfolio information must be submitted to Standard & Poor’s, as well as the office of the Comptroller of Public Accounts, for review.

As of September 30, 2013, Central Health had the following investments:

Type	Fair Value	Weighted Average Maturity (Days)
Local government investment pools	\$ 58,235,933	1
U.S. government agencies	51,779,372	978
Commercial paper	2,500,000	63
Total fair value	\$ 112,515,305	
Portfolio weighted average maturity		452

Interest Rate Risk - In accordance with its investment policy, Central Health manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to one and one-half years or less. Individual security types are limited as well, with the longest permitted maturity being one and one-half years for government treasuries and government agencies.

Credit Risk - State law limits investment in municipal bonds to an A rating or its equivalent by a nationally recognized investment rating firm. However, Central Health requires a rating of AA by either Moody's Investors Service or Standard & Poor's. For commercial paper, state law limits investments to a rating not less than A-1 by Standard & Poor's or P-1 by at least two nationally recognized credit rating agencies. Central Health's investment policy limits commercial paper to a rating not less than A-1 by Standard & Poor's and P-1 by Moody's Investors Service. Central Health does not have credit limits on government agency securities. Central Health's investments in government agencies carry the implicit guarantee of the U.S. government. Central Health's investment policy requires that certificates of deposits be either federally insured or collateralized.

Investments at September 30, 2013	Standard & Poor's Rating
Local government investment pools	AAAm
Federal National Mortgage Association	AA+
Federal Home Loan Mortgage Corporation	AA+
Federal Home Loan Bank	AA+
Federal Farm Credit Bank	AA+
TexasTERM Commercial Paper	A-1

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributable to the magnitude of investments in a single issuer. Central Health's investment policy limits the percentage of the combined portfolios for each type of eligible investment to reduce the risk of principal loss.

	Percentage of Portfolio	Portfolio Limit
Investments at September 30, 2013:		
TexPool	17%	50%
Other local government investment pools	17%	30%
U.S. government agencies	46%	75%
TexasTERM	20%	30%

Information regarding investments in any one issuer that represents five percent or more of Central Health total investments must be disclosed under GASB Statement No. 40, excluding investments issued or explicitly guaranteed by the U.S. government. At September 30, 2013, Central Health's investments which require disclosure are as follows:

	Fair Value	Percentage of Portfolio
Investments at September 30, 2013:		
Federal National Mortgage Association	\$ 8,921,178	8%
Federal Home Loan Mortgage Corporation	16,977,016	15%
Federal Home Loan Bank	8,982,297	8%
Federal Farm Credit Bank	16,898,881	15%

4. DISAGGREGATION OF RECEIVABLE BALANCES

Central Health's receivables, including the applicable allowances, are comprised of the following as of September 30, 2013:

	Taxes	Due from Component Units	Other	Total
Total	\$ 1,867,203	4,420,669	78,194	6,366,066
Less:				
Allowance for uncollectibles	(148,592)	-	-	(148,592)
Allowance for long-term collections	(1,177,392)	-	-	(1,177,392)
Total, net	<u>\$ 541,219</u>	<u>4,420,669</u>	<u>78,194</u>	<u>5,040,082</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ -</u>	<u>4,000,000</u>	<u>-</u>	<u>4,000,000</u>

At September 30, 2013, the due from component units includes a Sendero balance of \$344,531 in intercompany receivables, a CCC balance of \$76,138 in intercompany receivables, and a CommUnityCare balance of \$4,000,000, which is in noncurrent assets. At September 30, 2013, the other receivable balance is comprised of \$46,231 of accrued interest on investments and \$31,963 in miscellaneous receivables.

5. CAPITAL ASSETS

Central Health's capital assets are comprised of the following as of September 30, 2013:

	Beginning Balance	Additions	Retirements	Ending Balance
Capital assets not being depreciated:				
Land	\$ 10,357,928	-	106,486	10,464,414
Construction in progress	25,680,828	990,414	(18,318,951)	8,352,291
Total capital assets not being depreciated	36,038,756	990,414	(18,212,465)	18,816,705
Capital assets being depreciated:				
Building and improvements	95,032,869	-	15,905,835	110,938,704
Equipment and furniture	3,814,973	22,789	2,278,392	6,116,154
Total capital assets being depreciated	98,847,842	22,789	18,184,227	117,054,858
Less accumulated depreciation for:				
Building and improvements	(15,087,129)	(2,960,189)	-	(18,047,318)
Equipment and furniture	(2,030,256)	(884,343)	-	(2,914,599)
Total accumulated depreciation	(17,117,385)	(3,844,532)	-	(20,961,917)
Total capital assets being depreciated	81,730,457	(3,821,743)	18,184,227	96,092,941
Capital assets, net	<u>\$ 117,769,213</u>	<u>(2,831,329)</u>	<u>(28,238)</u>	<u>114,909,646</u>

With the creation of Central Health, the City of Austin conveyed ownership of assets associated with UMCB (then Brackenridge/Children's Hospital) and medical equipment used in the health care clinics to Central Health. Travis County conveyed medical equipment used in the health care clinics to Central Health. The City of Austin also donated an office building to Central Health. The conveyed and donated assets were recorded at fair market value at the date of receipt.

With the granting of the Federally Qualified Healthcare Center status to Central Health and CommUnityCare jointly on March 1, 2009, ownership of the remainder of the assets formerly owned by the City of Austin but not required to transfer under Texas law to Central Health were deeded from the City of Austin to Central Health in fiscal year 2009.

6. LONG-TERM DEBT

The following is a summary of changes in long-term debt for the period ended September 30, 2013:

	Beginning Balance	Additions	Retirements	Ending Balance
Certificates of Obligation	\$ 15,070,000	-	(910,000)	14,160,000

Certificates of Obligation debt consists of the following at September 30, 2013:

Certificates of Obligation:

Series	Date of Issue	Amounts of Original Issue	Matures Through	Interest Rate	Outstanding at 9-30-13	Due Within One Year
2011	9-20-11	\$ 16,000,000	2026	0.50 - 4.25%	\$ 14,160,000	\$ 920,000

The annual principal installments for each of the outstanding issues vary each year. As of September 30, 2013, the debt service requirements of indebtedness to maturity are as follows:

Year Ended September 30,	Principal	Interest	Total
2014	\$ 920,000	449,949	1,369,949
2015	935,000	436,207	1,371,207
2016	950,000	418,805	1,368,805
2017	975,000	397,803	1,372,803
2018	1,000,000	372,795	1,372,795
2019 - 2023	5,520,000	1,333,608	6,853,608
2024 - 2026	3,860,000	247,375	4,107,375
Total	\$ 14,160,000	3,656,541	17,816,541

The Certificates of Obligation are secured by and payable from the proceeds of a limited ad valorem tax levied against taxable property within the District and are additionally secured by a limited pledge of surplus revenues of the issuer in the amount not to exceed \$1,000.

7. OPERATING LEASE WITH SETON

Effective October 1, 2004, Central Health assumed the rights and obligation from the City of Austin related to a long-term lease agreement with Seton. Under the terms of the lease, Seton operated UMCB and provided all necessary medical services for residents of Travis County regardless of their ability to pay. The lease term was for 60 years through September 2055 with an optional 30-year extension. The breach of contract penalty was \$50 million and Seton was required to spend a minimum of \$50 million for capital improvements at Brackenridge Children's Hospital by 2023, of which \$30 million must have been spent by 2013.

The lease provided that Seton pay Central Health base or minimum rent and further provided that Seton pay additional rent under certain conditions.

Effective June 1, 2013, Central Health and Seton entered into a Master Agreement (the “Seton MA”) and ancillary agreements that superseded the original lease inherited from the City of Austin, as amended. See Note 8 for a discussion of the Seton MA and ancillary agreements.

The future minimum lease payments to be received from Seton are as follows:

2014	\$ 29,778,521
2015	1,806,060
2016	1,806,060
2017	1,806,060
2018	1,806,060
Thereafter	12,902,420
Total	\$ 49,905,181

8. CENTRAL HEALTH/SETON MASTER AND ANCILLARY AGREEMENTS

Effective June 1, 2013, Central Health and Seton entered into the Seton MA and two ancillary agreements: a lease for UMCB and an Omnibus Services Agreement. The Seton MA is a result of the collaboration of Central Health and Seton in participating in the Texas Healthcare and Quality Improvement Program, a statewide Medicaid 1115 waiver program.

Through the Seton MA, Central Health and Seton have formed the CCC, a 501(c)(3) corporation through which the two parties will jointly manage the provision of indigent health care. Through the CCC, the parties will mutually determine the size and composition of the covered population to be served in Travis County and the benefit package that will be provided to them. The CCC is a provider organization that will carry out a number of Delivery System Reform Incentive Payment (“DSRIP”) projects through the 1115 waiver, those that will be done in an ambulatory setting. Seton will carry out a number of DSRIP projects in a hospital setting, either at UMCB or at the Dell Children’s Hospital.

The UMCB lease provides that Seton will continue to operate UMCB until it has completed the construction of a new teaching hospital, currently scheduled to open sometime in calendar year 2017. The teaching hospital will serve as the medical education setting for the University of Texas Dell Medical School and will replace UMCB as the primary safety-net hospital in Travis County. The lease also provides for the continued use of certain space on the UMCB campus after the opening of the teaching hospital, as mutually determined by Central Health and Seton. Central Health is now engaged in a planning process for the reuse of the UMCB campus.

The Omnibus Services Agreement establishes the baseline for services that Seton will continue to perform and the value of those services. Under the Seton MA, Seton must provide this baseline level of service for at least five years, even if the Seton MA terminates. In addition, if Seton provides additional services, it will receive additional compensation as mutually determined by the parties at that time.

9. APPRAISAL DISTRICT AND AD VALOREM TAXES

The Texas Legislature in 1979 adopted a comprehensive Property Tax Code (the “Code”) which established a county-wide appraisal district and an appraisal review board in each county in the State. The Appraisal District is responsible for the recording and appraisal of all property in Central Health. Under the Code, Central Health sets the tax rates on property with the approval of the Travis County Commissioner’s Court. The Travis County Tax Assessor-Collector provides tax collection services. The Appraisal District is required under the Code to assess property at 100% of its appraised value. Further, real property must be reappraised at least every three years. Under certain circumstances, taxpayers and taxing units, including Central Health, may challenge orders of the Appraisal District’s review board through various appeals and, if necessary, legal action.

Property taxes are levied as of October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due on receipt of the tax bill and are delinquent if not paid before February 1 of the year following the year in which imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes and penalties and interest that are ultimately imposed.

The assessed value at January 1, 2012, upon which the October 2012 levy was based, was \$101,521,477,541. Central Health levied taxes based on a tax rate of \$0.078946 per \$100 of assessed valuation.

10. INTERLOCAL AGREEMENT WITH THE CITY OF AUSTIN

Effective March 1, 2009, Central Health entered into an agreement with the City of Austin under which Central Health will reimburse the City of Austin for emergency medical transport services provided to Central Health’s Medical Access Program enrollees.

Central Health also entered into several leases of mixed-use facilities from the City of Austin for primary care (clinic) sites that, pursuant to State law, did not transfer to Central Health. The mixed-use facility leases may remain in place until February 28, 2034, if not terminated earlier by either party. Rental expense to Central Health is comprised only of the operating and maintenance expense for each facility. In addition, Central Health entered into a lease of administrative space from the City of Austin that expires on February 28, 2014, under essentially the same terms and conditions as those of the mixed-use facilities.

11. INTERLOCAL AGREEMENTS WITH TRAVIS COUNTY

Central Health entered into an Interlocal agreement with Travis County in which Travis County provides legal and other services for Central Health along with the tax collection services discussed in Note 9. Central Health also entered into several leases of mixed-use facilities from the County for primary care (clinic) sites that, pursuant to State law, did not transfer to Central Health. The mixed-use facility leases may remain in place until February 28, 2019, if not terminated earlier by either party. Rental expense to Central Health is comprised only of the operating and maintenance expense for each facility.

12. DEFERRED COMPENSATION PLAN

Central Health offers its employees a deferred compensation plan established in accordance with Internal Revenue Code Section 457. Assets and income of Central Health's plan are administered by a private corporation under contract with Central Health and are held for the exclusive benefit of the participants and their beneficiaries. Accordingly, the plan's assets and liabilities are not recorded in Central Health's financial statements. During the year ended September 30, 2013, Central Health contributed \$32,149 to the plan under Central Health's deferred compensation matching program.

13. RETIREMENT PLAN

In October 2007, Central Health began offering its employees a 401(a) plan established in accordance with Internal Revenue Code Section 401(a). Assets and income of Central Health's plan are administered by a private corporation under contract with Central Health and are held for the exclusive benefit of the participants and their beneficiaries. Accordingly, the plan's assets and liabilities are not recorded in Central Health's financial statements. During the year ended September 30, 2013, Central Health contributed \$169,807 to the plan under Central Health's retirement program.

14. HEALTH CARE COVERAGE

During the year ended September 30, 2013, employees of Central Health were covered by a health insurance plan. On average, Central Health contributed \$430 per month per employee to the plan during the year ended September 30, 2013. In addition, Central Health contributed a portion of the cost of family coverage, if applicable, and employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All contributions were paid to a licensed insurer. The plan was documented by a contractual agreement.

15. OTHER OPERATING LEASES

Central Health leases a clinic facility and other equipment under noncancelable long-term leases that expire at various dates through January 2018. The clinic facility lease requires additional payments for common area maintenance and real estate taxes. Rent expense for the year ended September 30, 2013 was \$184,976. Future minimum rental payments as of September 30, 2013 are as follows:

2014	\$	127,792
2015		82,974
2016		84,598
2017		86,362
Thereafter		25,767
Total	\$	<u>407,493</u>

16. RISK MANAGEMENT

Central Health’s risk management program includes coverage through third party insurance providers for general liability, property damage, officers’ professional liability, workers compensation, and other types of insurance as appropriate. During the year ended September 30, 2013, there were no reductions in insurance coverage from coverage in the prior year and there have been no claims other than routine claims for workers compensation, none of which was significant.

17. COMMITMENTS AND CONTINGENCIES

Central Health is involved in litigation arising in the course of business. After consultation with legal counsel, management estimates the matters will be resolved without material adverse effect on Central Health’s future financial position or results from operations.

18. PRIOR PERIOD ADJUSTMENT TO NET POSITION

GASB Statement No. 62 was implemented during the current fiscal year. In accordance with GASB Statement No. 62, bond issuance costs previously reported as assets in the statement of net position and amortized over the life of the related debt are now recognized as an expense in the year in which the bonds are sold. The effect of this change in accounting principle is as follows:

Total net position - September 30, 2012	\$ 227,777,816
Effect of adjustments	<u>(216,915)</u>
Total net position - September 30, 2012, as restated	<u>\$ 227,560,901</u>

19. SUBSEQUENT EVENTS

Central Health has evaluated subsequent events through February 4, 2014 (the date the financial statements were available to be issued) and no events have occurred from the statement of net position date through that date that would impact the financial statements.



MAXWELL LOCKE & RITTER LLP

Accountants and Consultants

An Affiliate of CPAmerica International

tel (512) 370 3200 fax (512) 370 3250
www.mlrpc.com

Austin: 401 Congress Avenue, Suite 1100
Austin, TX 78701

Round Rock: 303 East Main Street
Round Rock, TX 78664

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

The Board of Managers of
Travis County Healthcare District:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Travis County Healthcare District (doing business as and hereinafter referred to as "Central Health") as of and for the year ended September 30, 2013, and the related notes to the financial statements, which collectively comprise Central Health's basic financial statements, and have issued our report thereon dated February 4, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Central Health's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Central Health's internal control. Accordingly, we do not express an opinion on the effectiveness of Central Health's internal control.

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

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

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This firm is not a CPA firm

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Central Health's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, 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 or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Maxwell Joche + Pitter LLP

Austin, Texas
February 4, 2014