

# NUECES COUNTY HOSPITAL DISTRICT

ANNUAL FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2012

NUECES COUNTY HOSPITAL DISTRICT  
AUDITED FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2012

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NUECES COUNTY HOSPITAL DISTRICT  
AUDITED FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2012

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INDEPENDENT AUDITOR'S REPORT

December 20, 2012

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, 2012, 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, 2012, 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 20, 2012 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  
Management's Discussion and Analysis  
For Fiscal Year Ended September 30, 2012**

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 one-year fiscal period October 1, 2011 – September 30, 2012 (“Fiscal Year 2012”). Since the focus of the MD&A is on the above fiscal period’s operations, activities, and currently known facts, it should be read in conjunction with the District's related financial statements and accompanying notes to best understand the District's financial position.

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

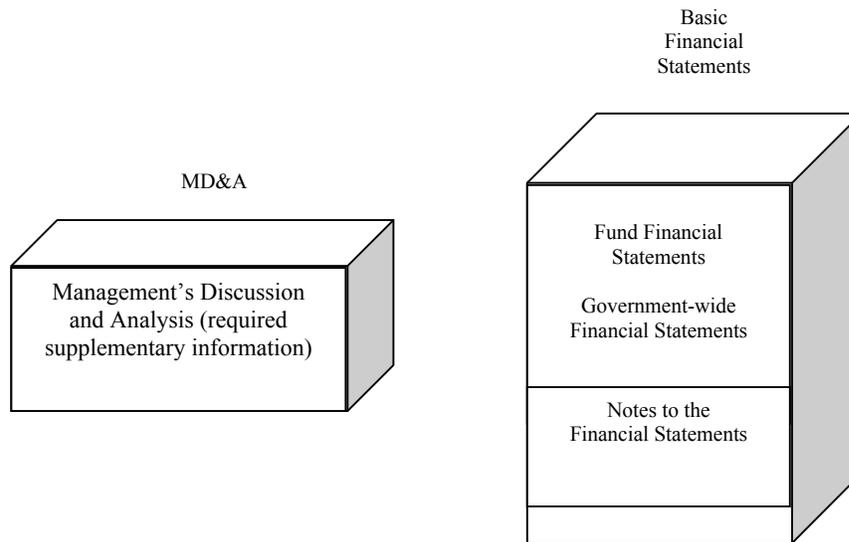
**Financial Highlights**

At fiscal year ended September 30, 2012, the District’s General Fund balance was \$5.011 million compared to \$4.620 million in 2011, an 8.5% increase. 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 2012, 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, 2012 and 2011 by \$53.133 million and \$57.361 million, respectively. Cash and investments amounted to \$32.896 million and \$38.394 million which represent 55% of total assets for September 30, 2012 and 58.5% for 2011, 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 ("Spohn"), this fund is presently used to subsidize the District's current employees with their health insurance premiums.

### **Notes to the Financial Statements**

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

### **Other Information**

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

**GOVERNMENT WIDE-FINANCIAL ANALYSIS**

**Statement of Net Assets (Government-Wide)**

The District’s total net assets were \$53.133 million and \$57.361 million as of September 30, 2012 and 2011, respectively, a decrease of \$4.228 million or 7.4%. Total assets decreased \$5.874 million or 8.9% compared to September 30, 2011. The District’s total liabilities decreased \$1.645 million or 19.7% compared to September 30, 2011.

**TABLE A-1**  
**Nueces County Hospital District Net Assets**  
**September 30, 2012 and 2011**  
**(In Thousands)**

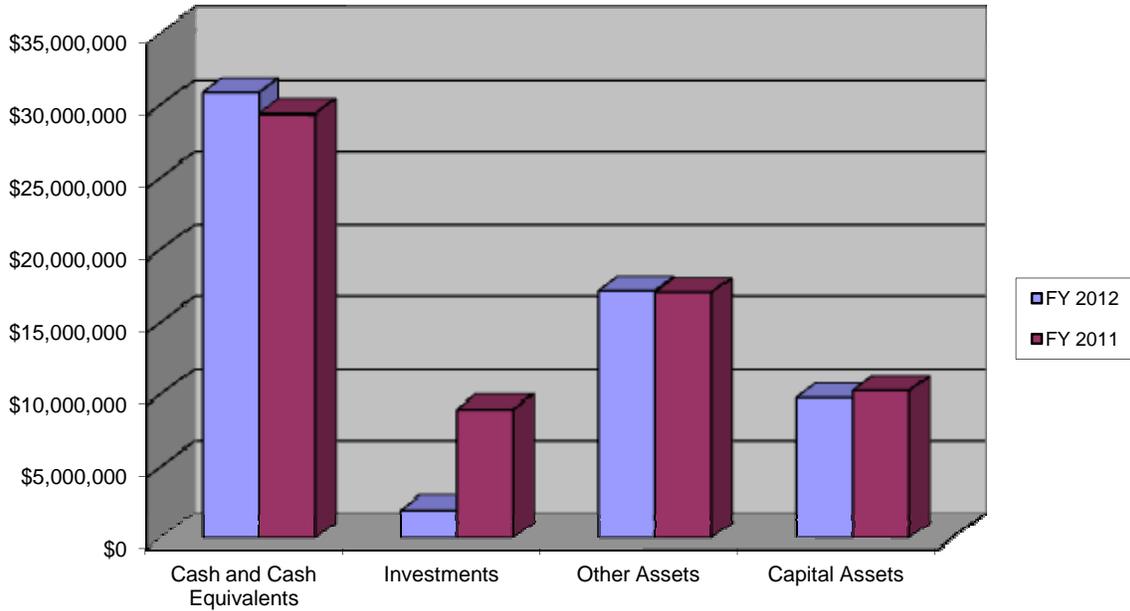
	<u>2012</u>	<u>2011</u>	<u>2012-2011</u> <u>Variance</u>
<b>Assets:</b>			
Cash and Cash Equivalents	\$ 30,894	\$ 29,396	\$ 1,498
Investments	2,002	8,998	(6,996)
Other Assets	17,160	17,042	118
Capital Assets (Net of Accumulated Depreciation)	<u>9,768</u>	<u>10,262</u>	<u>(494)</u>
<b>Total Assets</b>	<b><u>59,824</u></b>	<b><u>65,698</u></b>	<b><u>(5,874)</u></b>
<b>Liabilities:</b>			
Accounts Payable	1,293	1,331	(38)
Accrued Payroll and Related Liabilities	74	76	(2)
Accrued Interest	52	67	(15)
Long-Term Liabilities:			
Due Within One Year	1,675	1,615	60
Due in More Than One Year	<u>3,597</u>	<u>5,247</u>	<u>(1,650)</u>
<b>Total Liabilities</b>	<b><u>6,691</u></b>	<b><u>8,336</u></b>	<b><u>(1,645)</u></b>
<b>Net Assets:</b>			
Invested in Capital Assets, Net of Related Debt	4,501	3,399	1,102
Unrestricted	<u>48,632</u>	<u>53,962</u>	<u>(5,330)</u>
<b>Total Net Assets</b>	<b><u>\$ 53,133</u></b>	<b><u>\$ 57,361</u></b>	<b><u>\$ (4,228)</u></b>

**Financial Analysis**

In Fiscal Year 2012, the \$5.498 million or 14.3% net decrease in Cash and Cash Equivalents and Investments combined is the result of a planned effort to reduce the District’s reserves. The \$118 thousand or 0.7% increase in Other Assets relates to additions in receivables. The \$494 thousand or 4.8% decrease in Capital Assets (Net of Accumulated Depreciation) mainly relates to depreciation expense. Accounts Payable decreased \$38 thousand or 2.8% due to payments of accrued county healthcare liabilities. Long Term Liabilities had a \$1.645 million or 31.4% net decrease mainly as the result of payments of bond debt.

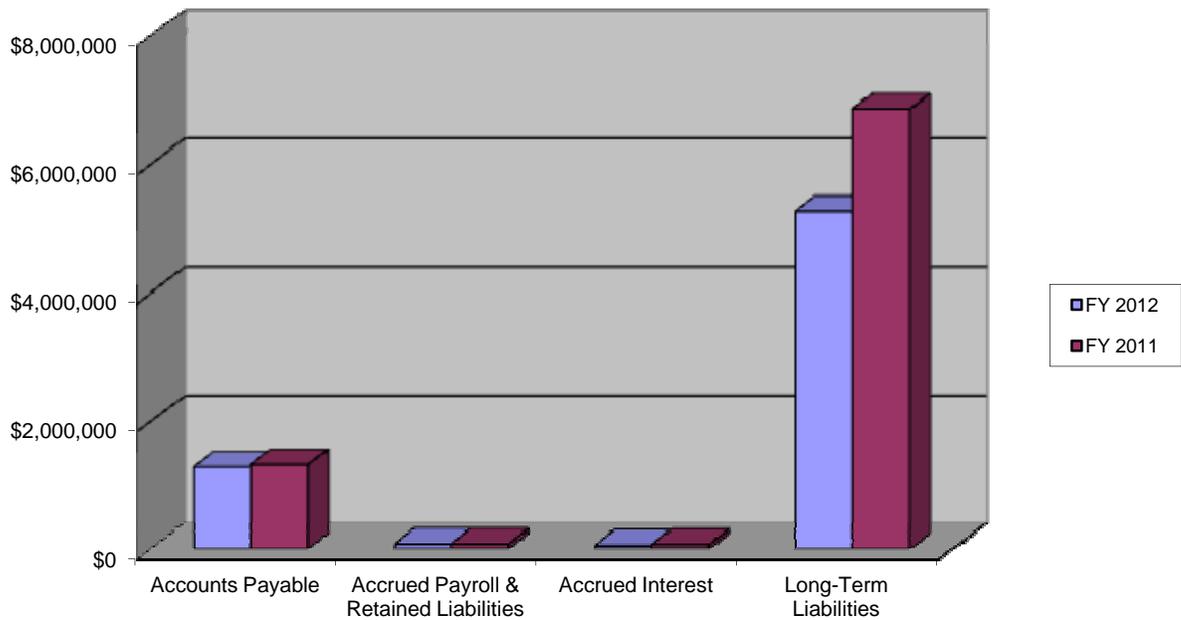
Please refer to Table A-1 above for details of Chart A-1.1 below relating to the District's Assets.

**CHART A-1.1  
District Assets**



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

**CHART A-1.2  
District Liabilities**



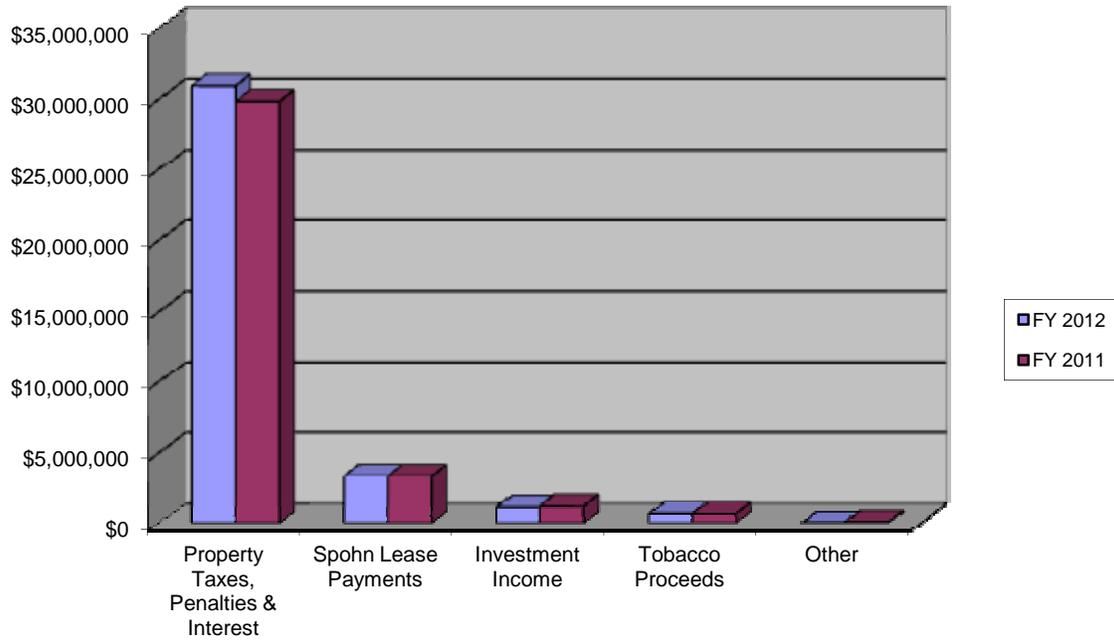
**Statement of Activities (Government-Wide)**

**TABLE A-2  
Changes in Nueces County Hospital District Net Assets  
Years Ended September 30, 2012 and 2011  
(In Thousands)**

	<u>2012</u>	<u>2011</u>	<u>2012-2011 Variance</u>
<b>Revenues:</b>			
Property Taxes and Penalties and Interest	\$ 30,900	\$ 29,828	\$ 1,072
Spohn Rental Payments	3,368	3,368	--
Investment Income	1,147	1,217	(70)
Tobacco Proceeds	699	688	11
Other	31	79	(48)
<b>Total Revenues</b>	<u><b>36,145</b></u>	<u><b>35,180</b></u>	<u><b>965</b></u>
<b>Expenses:</b>			
General Government	1,639	1,762	(123)
Health	37,927	37,286	641
Depreciation	519	533	(14)
<b>Total Expenses</b>	<u><b>40,085</b></u>	<u><b>39,581</b></u>	<u><b>504</b></u>
<b>Debt Service-</b>			
Interest and Fiscal Charges	<u>288</u>	<u>352</u>	<u>(64)</u>
<b>Excess of Expenditures Over Revenues</b>	<u><b>(4,228)</b></u>	<u><b>(4,753)</b></u>	<u><b>525</b></u>
<b>Fund Balance/Net Assets, Beginning of Year</b>	<u>57,361</u>	<u>62,114</u>	<u>(4,753)</u>
<b>FUND BALANCE, NET ASSETS, END OF YEAR</b>	<u><u><b>\$ 53,133</b></u></u>	<u><u><b>\$ 57,361</b></u></u>	<u><u><b>\$ (4,228)</b></u></u>

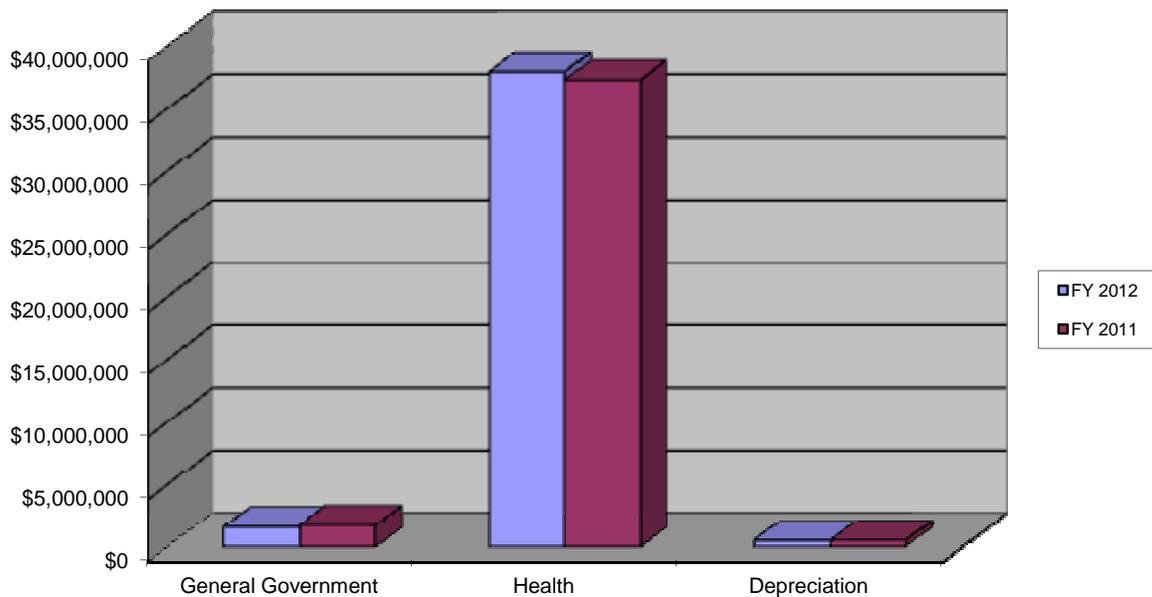
Please refer to Table A-2 above for details of Chart A-2.1 below relating to the District's Revenues.

**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 2012, the District's total revenues increased \$965 thousand or 2.7% compared to the prior fiscal year. There were 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 \$1.072 million or 3.6% and accounted for 85.5% of total revenues compared to 84.8% in the prior fiscal year. The District's tax rate during Fiscal Year 2012 remained the same as the prior fiscal year at \$0.162428 per \$100 valuation. Property valuations increased by \$685.100 million or 3.7%. The second source of revenue is lease income from Spohn 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 14.1% of total District revenue compared to 14.4% in the prior fiscal year. The third source is Investment Income which decreased \$70 thousand or 5.7% from a reduction in cash and investments compared to prior fiscal year. The fourth source is Tobacco Settlement reimbursements from the State of Texas' tobacco litigation which increased by \$11 thousand or 1.6% compared to prior fiscal year. Additional revenue proceeds which mostly include the auctioning of surplus equipment and reimbursements from other local government entities had a decrease of \$48 thousand from prior fiscal year or 60.7%.

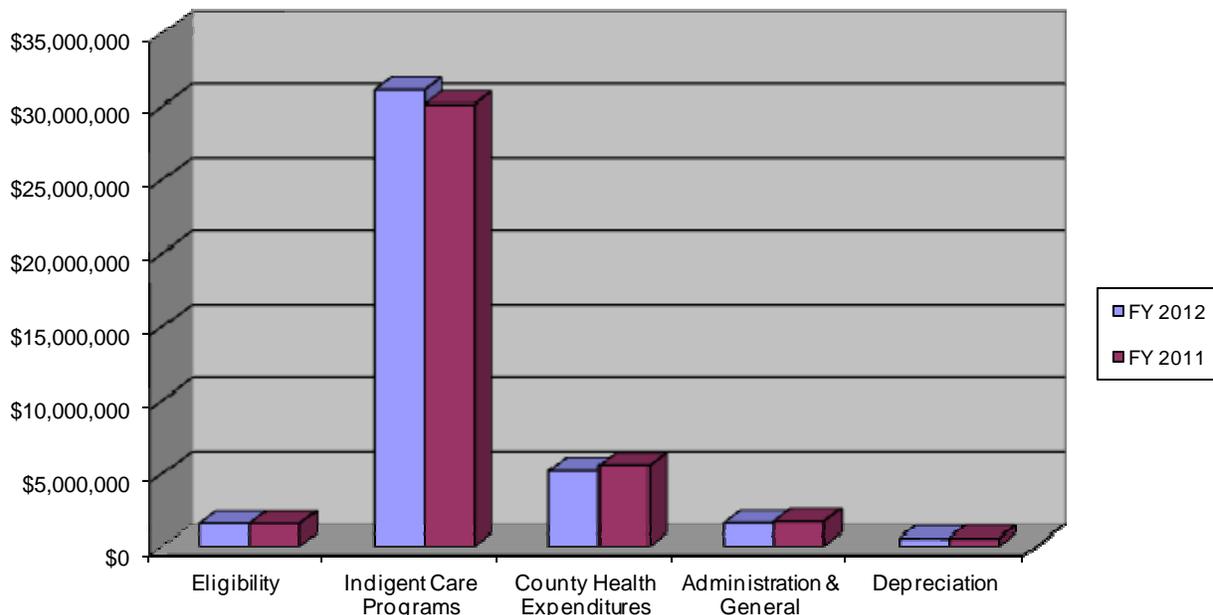
**TABLE A-3**  
**Net Cost of Selected District Functions**  
**(In Thousands)**

	<u>2012</u>	<u>2011</u>	<b>2012-2011</b> <u>Variance</u>
Eligibility	\$ 1,605	\$ 1,602	\$ 3
Indigent Care Programs	31,100	30,112	988
County Healthcare Expenditures	5,221	5,572	(351)
Administration and General	1,640	1,762	(122)
Depreciation	519	533	(14)
<b>TOTAL</b>	<b><u>\$ 40,085</u></b>	<b><u>\$ 39,581</u></b>	<b><u>\$ 504</u></b>

## Expenditures

The primary expenditures of the District's functions in Fiscal Year 2012 increased \$504 thousand or 1.3% compared to the prior fiscal year. Health expenses include the 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 were provided through the District's Indigent Care Agreement with Spohn. This cost increased \$988 thousand or 3.3% in Fiscal Year 2012 compared to the prior fiscal year as the result of inflation-related payment increases required by the Agreement. Indigent Care Program costs represented 77.6% of all functional expenditures in Fiscal Year 2012 compared to 76.1% in the prior fiscal year. The second largest amount of cost is \$5.221 million for County Healthcare Expenditures which relates to the District's support of other healthcare services in the County. The District directly or indirectly pays for non-indigent healthcare-related service costs that were paid by Nueces County in earlier years. These costs include expenses such as county jail and juvenile detention center healthcare services, reimbursement of operating expenditures at the City/County Public Health Department, match and other subsidies for the local MHMR center and costs associated with operation of the County Jail's infirmary. This cost decreased \$351 thousand or 6.3% in Fiscal Year 2012 compared to the prior fiscal year. County Healthcare Expenditure costs represented 13.1% of all the District's net costs in Fiscal Year 2012 compared to 14.1% in the prior fiscal year. The two other costs of the District were Administrative and General and Eligibility costs. Collectively, these costs decreased \$119 thousand or 3.5% during Fiscal Year 2012 compared to the prior fiscal year. These were costs incurred in operating the District. The major costs for this were salaries and benefits, legal fees, consulting fees, rents, supplies, and purchased services. Administrative and General Costs represented 4.1% of all net costs in Fiscal Year 2012 compared to 4.5% in the prior fiscal year. Eligibility costs represented 4% of all net costs in Fiscal Year 2012 compared to 4.1% in the prior fiscal year. Please refer to Table A-3 above for details of Chart A-3 below relating to the District's Net Cost of selected Functions.

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



## General Fund Budgetary Highlights

Expectations for the District's General Fund budget were surpassed during Fiscal Year 2012.

### Revenues

Revenues exceeded budget by \$1.065 million. Of the excess revenues, \$1.028 million was related to collections of ad valorem taxes, penalties and interest. Investment income exceeded budget by \$6.3 thousand. Recovery of certain prior fiscal year's expenses, proceeds from other local government entities, and the auctioning of surplus equipment accounted for approximately \$31 thousand.

### Expenditures

Expenditures were less than budget by \$523 thousand. Of the expenditures less than budget, \$191 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 \$135 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 \$61 thousand due to underutilization by the County. The Other category which includes office lease and administrative expenditures ended under budget by \$32 thousand.

## CAPITAL ASSETS AND DEBT ADMINISTRATION

### Capital Assets

The District had \$9.768 million in net capital assets at the end of September 30, 2012. The breakdown of the capital assets is as follows:

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

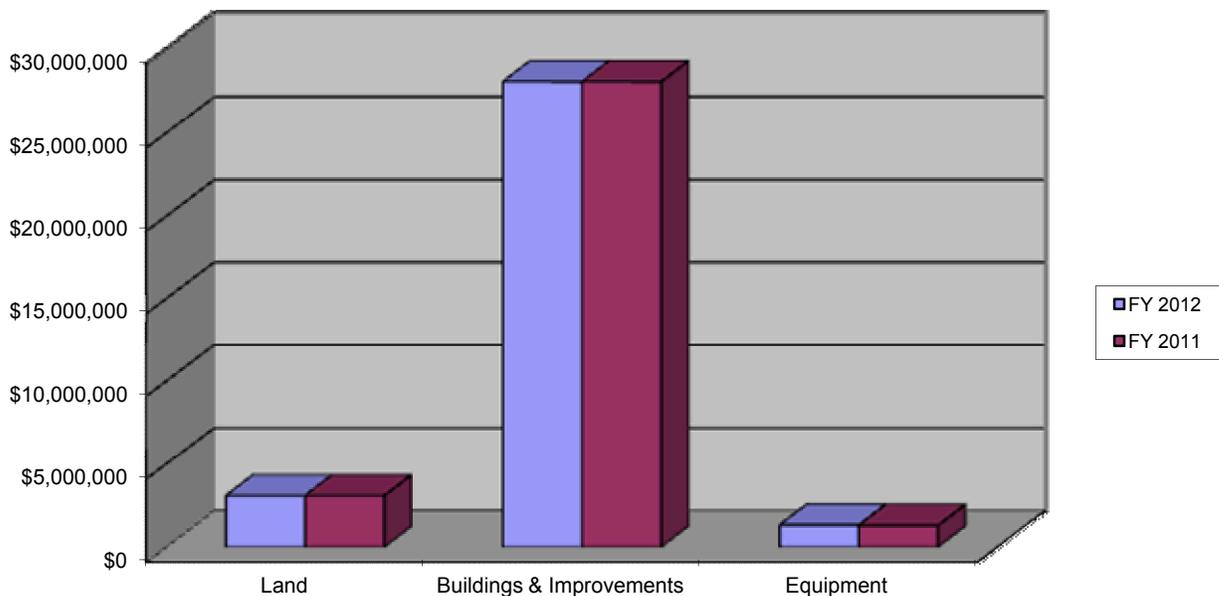
	<u>2012</u>	<u>2011</u>	<u>2012-2011</u> <u>Variance</u>
Land	\$ 3,077	\$ 3,077	\$ --
Buildings and Improvements	28,073	28,073	--
Equipment	1,327	1,301	26
Total	32,477	32,451	26
Less: Accumulated Depreciation	22,709	22,189	520
<b>NET CAPITAL ASSETS</b>	<b>\$ 9,768</b>	<b>\$ 10,262</b>	<b>\$ (494)</b>

Under terms of the current Agreement, 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 Spohn to spend an average of \$6 million a year for upkeep of the hospital and to purchase equipment. Please refer to Note 7 - Capital Assets of the Financial Statements for more details on capital assets.

During Fiscal Year 2012, 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>2012</u>	<u>2011</u>	<u>2012-2011 Variance</u>
Bonds Payable	\$ 5,201	\$ 6,796	\$ (1,595)
Accrued Paid Time Off	<u>71</u>	<u>67</u>	<u>4</u>
<b>NET LONG-TERM DEBT</b>	<b><u><u>\$ 5,272</u></u></b>	<b><u><u>\$ 6,863</u></u></b>	<b><u><u>(\$1,591)</u></u></b>

The Bonds Payable matures on July 1, 2015. Future years interest rates associated with the District's long-term bond debt are 3.8% (2013), 4.0% (2014), and 4.1% (2015). The Bonds are secured and payable from a continuing direct annual ad valorem tax levied on all taxable property located within Nueces County. The District's sole bond indebtedness is the Limited Tax Refunding Bonds, Series 2003.

Please refer to Note 9 - Long-Term Obligations of the Financial Statements for more information on the District's debt.

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## **Economic Factors, Next Year's Budget, Tax Rates, and Financial Planning**

### ***Economic Factors***

State budget pressures may alter funding, services, or eligibility for its Medicaid program which could affect enrollments in the District's indigent 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, 2013, the District's Board of Managers and County Commissioners Court approved a District operating budget wherein revenues exceed expenses by \$5.929 million. An important change affecting next year's budget involves a subsequent event. Effective as of October 1, 2012, the District and Spohn completed the renegotiation of their current relationship first entered into in 1996. The District and Spohn's renegotiated arrangement will continue to benefit the County's indigent residents served by the District and facilitate the District's ability to participate in certain aspects of a statewide federally-approved Medicaid Section 1115 Demonstration Waiver, as requested by the County Commissioners Court. As a result during fiscal year ending September 30, 2013, the District's total budgeted revenues will increase \$62.400 million, and total operating expenditures will increase \$51.400 million compared to last year. Please refer to Note 13 – Subsequent Events of the Financial Statements for further explanation of this renegotiated arrangement.

### ***Tax Rates***

The Hospital District's property valuations for fiscal year ending 2013 have increased by 3.91%. However, the District's reserves have been steadily decreasing from the drawing down of funds in previous years for then operations. To lessen reliance on the District's reserves, County Commissioners Court has maintained the District's tax rate for the fiscal year ending September 30, 2013 budget at \$0.162428 per \$100 valuation, the same as prior fiscal year. The District's taxable property valuations for fiscal year ending 2013 are \$19.973 billion. The fiscal year ending September 30, 2013 budget estimates total tax revenues of \$31.450 million, an increase of \$1.430 million or 4.77% over Fiscal Year 2012.

### ***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 factors influencing the economy, tax base expansion may not be as favorable as in recent years, and future taxable property valuations may 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, elected officials, investors, creditors, and others with a general overview of the District's financial position and results of operations, to demonstrate the District's accountability for the tax and other funds it receives, and show use of the District's expenditures. Questions concerning any of the information contained in these statements or requests for additional statement information can be directed to the District at:

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

### **HISTORICAL AUDITED FINANCIAL STATEMENTS**

Recent historical audited financial statements of the District are available via the Internet and can be viewed or downloaded in Portable Document Format from [www.nchdcc.org/financial.cfm](http://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, 2012**

<b>ASSETS</b>	<b><u>GENERAL</u></b>	<b><u>INDIGENT CARE FUND</u></b>	<b><u>NONMAJOR GOVERNMENTAL FUNDS</u></b>
Cash and Cash Equivalents (Note 3)	5,334,801	25,086,415	473,214
Investments (Note 3)	475	2,001,866	--
Accrued Interest	48	1,303	4
Hospital Lease Receivable (Note 4)	15,118,214	--	--
Taxes Receivable Net Of Allowance for Uncollectibles (Note 6):	973,612	--	--
Other Receivables	896,518	--	--
Prepaid Expenditures	146,898	--	--
Bond Issue Costs	--	--	--
Land (Note 7)	--	--	--
Other Capital Assets, net of Accumulated Depreciation (Note 7)	--	--	--
TOTAL ASSETS	<u>22,470,566</u>	<u>27,089,584</u>	<u>473,218</u>

Exhibit 1

<u>TOTAL</u>	<u>ADJUSTMENTS EXHIBIT 2</u>	<u>STATEMENT OF NET ASSETS</u>
30,894,430	--	30,894,430
2,002,341	--	2,002,341
1,355	--	1,355
15,118,214	--	15,118,214
973,612	--	973,612
896,518	--	896,518
146,898	--	146,898
--	22,553	22,553
--	3,076,926	3,076,926
--	6,691,253	6,691,253
<u>50,033,368</u>	<u>9,790,732</u>	<u>59,824,100</u>

(Continued)

**NUECES COUNTY HOSPITAL DISTRICT**

**(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)**

**GOVERNMENTAL FUNDS BALANCE SHEET / STATEMENT OF NET ASSETS**

**SEPTEMBER 30, 2012**

	<b><u>GENERAL</u></b>	<b><u>INDIGENT CARE FUND</u></b>	<b><u>NONMAJOR GOVERNMENTAL FUNDS</u></b>
<b>LIABILITIES</b>			
Accounts Payable	1,293,616	--	--
Accrued Payroll and Related Liabilities	73,776	--	--
Accrued Interest	--	--	51,916
Deferred Revenue (Note 8)	16,091,826	--	--
Long-term Liabilities (Note 9):			
Due Within One Year	--	--	--
Due in More Than One Year	--	--	--
<b>TOTAL LIABILITIES</b>	<b>17,459,218</b>	<b>--</b>	<b>51,916</b>
<b>FUND EQUITY/NET ASSETS</b>			
Fund Balances:			
Nonspendable	146,898	--	--
Committed to Indigent Care	--	27,089,584	--
Assigned to:			
Debt Service	--	--	420,554
County Health Care	--	--	748
Unassigned	4,864,450	--	--
<b>Total Fund Equity</b>	<b>5,011,348</b>	<b>27,089,584</b>	<b>421,302</b>
<b>TOTAL LIABILITIES AND     FUND EQUITY</b>	<b>22,470,566</b>	<b>27,089,584</b>	<b>473,218</b>
Net Assets:			
Invested in Capital Assets, net of Related Debt			
Unrestricted			
<b>TOTAL NET ASSETS</b>			

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>
1,293,616	--	1,293,616
73,776	--	73,776
51,916	--	51,916
16,091,826	(16,091,826)	--
--	1,675,000	1,675,000
--	3,596,825	3,596,825
17,511,134	(10,820,001)	6,691,133
146,898	(146,898)	--
27,089,584	(27,089,584)	--
420,554	(420,554)	--
748	(748)	--
4,864,450	(4,864,450)	--
32,522,234	(32,522,234)	--
<u>50,033,368</u>		
	4,567,591	4,567,591
	48,565,376	48,565,376
	<u>53,132,967</u>	<u>53,132,967</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	32,522,234
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 \$32,476,910 and the accumulated depreciation is \$22,708,731 (Note 7)	9,768,179
Taxes receivable, net of allowance is not available to pay for current period expenditures and is, therefore, deferred in the governmental funds. (Note 8)	973,612
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)	15,118,214
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)	(5,271,825)
Bond issuance costs are not reported in the governmental funds.	<u>22,553</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>53,132,967</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, 2012**

	<b><u>GENERAL</u></b>	<b><u>INDIGENT CARE FUND</u></b>	<b><u>NONMAJOR GOVERNMENTAL FUNDS</u></b>
Revenues:			
Taxes	30,688,823	--	--
Penalties and Interest - Taxes	361,204	--	--
Leases - Spohn Health System	625,602	--	--
Rental - Spohn Health System	3,367,615	--	--
Investment Income	1,087,373	58,594	1,188
Tobacco Settlement	--	--	698,820
Other	31,088	--	--
Total Revenue	<u>36,161,705</u>	<u>58,594</u>	<u>700,008</u>
Expenditures:			
Current:			
General Government	1,634,924	--	--
Health	37,926,675	--	--
Depreciation	--	--	--
Capital Outlay	25,826	--	--
Total Current	<u>39,587,425</u>	<u>--</u>	<u>--</u>
Debt Service:			
Principal Payments	--	--	1,615,000
Interest and Fiscal Charges	--	--	252,483
Payment to Escrow Agent	--	--	300
Total Debt Service	<u>--</u>	<u>--</u>	<u>1,867,783</u>
Total Expenditures	<u>39,587,425</u>	<u>--</u>	<u>1,867,783</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	(3,425,720)	58,594	(1,167,775)
Other Financing Sources (Uses): (Note 11)			
Transfers In	5,699,000	--	1,882,479
Transfers Out	(1,882,479)	(5,000,000)	(699,000)
Total Other Financing Sources (Uses)	<u>3,816,521</u>	<u>(5,000,000)</u>	<u>1,183,479</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	390,801	(4,941,406)	15,704
Fund Balance/Net Assets, Beginning of Year	<u>4,620,547</u>	<u>32,030,990</u>	<u>405,598</u>
FUND BALANCE/NET ASSETS, END OF YEAR	<u>5,011,348</u>	<u>27,089,584</u>	<u>421,302</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>
30,688,823	(149,711)	30,539,112
361,204	--	361,204
625,602	(625,602)	--
3,367,615	--	3,367,615
1,147,155	--	1,147,155
698,820	--	698,820
31,088	--	31,088
<u>36,920,307</u>	<u>(775,313)</u>	<u>36,144,994</u>
1,634,924	4,337	1,639,261
37,926,675	--	37,926,675
--	519,245	519,245
25,826	(25,826)	--
<u>39,587,425</u>	<u>497,756</u>	<u>40,085,181</u>
1,615,000	(1,615,000)	--
252,483	35,064	287,547
300	--	300
<u>1,867,783</u>	<u>(1,579,936)</u>	<u>287,847</u>
<u>41,455,208</u>	<u>(1,082,180)</u>	<u>40,373,028</u>
(4,534,901)	306,867	(4,228,034)
7,581,479	(7,581,479)	--
<u>(7,581,479)</u>	<u>7,581,479</u>	<u>--</u>
<u>--</u>	<u>--</u>	<u>--</u>
(4,534,901)	306,867	(4,228,034)
<u>37,057,135</u>	<u>20,303,866</u>	<u>57,361,001</u>
<u>32,522,234</u>	<u>20,610,733</u>	<u>53,132,967</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 (4,534,901)

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 \$519,246 was less than capital outlays of \$25,826 in the current period. (Note 7) (493,420)

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) 1,615,000

Bond issuance costs are expenditures in the governmental funds but are capitalized and amortized in the net assets. Premiums and loss on refunding are also amortized. (35,063)

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. (625,602)

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. (149,711)

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES (4,228,034)

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

**NUECES COUNTY HOSPITAL DISTRICT****(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)****GENERAL FUND****STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET (GAAP BASIS) AND ACTUAL****YEAR ENDED SEPTEMBER 30, 2012**

	<b><u>ORIGINAL AND FINAL BUDGET</u></b>	<b><u>ACTUAL GAAP BASIS</u></b>	<b><u>VARIANCE FAVORABLE (UNFAVORABLE)</u></b>
Revenues:			
Taxes	29,731,567	30,688,823	957,256
Penalties and Interest - Taxes	290,064	361,204	71,140
Leases - Spohn Health System	625,602	625,602	--
Rental - Spohn Health System	3,367,615	3,367,615	--
Investment Income	1,081,040	1,087,373	6,333
Other	--	31,088	31,088
Total Revenues	<u>35,095,888</u>	<u>36,161,705</u>	<u>1,065,817</u>
Expenditures:			
Current:			
General Government	1,871,790	1,634,924	236,866
Health	38,193,855	37,926,675	267,180
Capital Outlay	45,000	25,826	19,174
Total Current Expenditures	<u>40,110,645</u>	<u>39,587,425</u>	<u>523,220</u>
Deficiency of Revenues Over Expenditures	(5,014,757)	(3,425,720)	1,589,037
Other Financing Sources (Uses):			
Transfers In	6,035,000	5,699,000	(336,000)
Transfers Out	(1,882,479)	(1,882,479)	--
Total Other Financing Sources	<u>4,152,521</u>	<u>3,816,521</u>	<u>(336,000)</u>
Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Uses	<u>(862,236)</u>	390,801	<u>1,253,037</u>
Fund Balance, Beginning of Year		<u>4,620,547</u>	
FUND BALANCE, END OF YEAR		<u>5,011,348</u>	

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

**NUECES COUNTY HOSPITAL DISTRICT****(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)****INDIGENT CARE FUND****STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET (GAAP BASIS) AND ACTUAL****YEAR ENDED SEPTEMBER 30, 2012**

	<b><u>ORIGINAL AND FINAL BUDGET</u></b>	<b><u>ACTUAL GAAP BASIS</u></b>	<b><u>VARIANCE FAVORABLE (UNFAVORABLE)</u></b>
Revenues -			
Investment Income	30,110	58,594	28,484
Expenditures -			
Other Financing Uses -			
Transfers Out	(5,585,000)	(5,000,000)	585,000
	<u>(5,585,000)</u>	<u>(5,000,000)</u>	<u>585,000</u>
Excess of Financing Uses Over Revenues	<u>(5,554,890)</u>	(4,941,406)	<u>613,484</u>
Fund Balance, Beginning of Year		<u>32,030,990</u>	
FUND BALANCE, END OF YEAR		<u><u>27,089,584</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, 2012**

	<b>HEALTH BENEFIT PLAN AND TRUST FUND</b>
<b>ASSETS</b>	
Cash and Cash Equivalents (Note 3)	360,937
Accrued Interest	6
Total Assets	360,943
 <b>LIABILITIES</b>	
Payable to General Fund	--
 <b>NET ASSETS</b>	
Held in Trust for Employee Health Benefits	360,943

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, 2012**

	<b>HEALTH BENEFIT PLAN AND TRUST FUND</b>
<b>ADDITIONS</b>	
Interest	94
<b>DEDUCTIONS</b>	
Bank Charges	1,809
Total Deductions	<u>1,809</u>
Net Decrease	(1,715)
Net Assets, Beginning of Year	<u>362,658</u>
NET ASSETS, END OF YEAR	<u><u>360,943</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, 2012

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:

ASSETS	LIFE IN YEARS
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 a formal vote of the Board of Managers no later than the close of the fiscal year. Those constraints remain binding unless removed or changed in the same manner employed to previously commit those resources.

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

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

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

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, 2012, 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 YEAR	
		LESS THAN ONE YEAR	ONE TO FOUR YEARS
Cash and Equivalents:			
Collateralized Bank Accounts	215,005	215,005	--
Money Market Mutual Funds	360,937	360,937	--
Petty Cash	150	150	--
AAA-Rated Local Government Investment Pools:			
Texpool	15,631,648	15,631,648	--
Logic	17,272	17,272	--
TexStar	15,030,355	15,030,355	--
Total Cash and Equivalents	31,255,367	31,255,367	--
Investments:			
US Agencies:			
Federal Home Loan Mortgage Corporation	2,001,866	--	2,001,866
Government National Mortgage Association	475	--	475
Total Investments	2,002,341	--	2,002,341
TOTAL VALUE	33,257,708	31,255,367	2,002,341
% of Total Portfolio		93.98%	6.02%

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

**Credit Risk**

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

### 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 requires inclusion of a procedure to monitor and act as necessary to changes in credit rating on any investment which requires a rating. State law and the District's adopted Investment Policy also requires a procedure to verify continued FDIC weekly.

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

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

#### **Concentration of Credit Risk**

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

As of September 30, 2012, holdings in US Government securities with ratings of AAA represented 6.01% of the total portfolio. Investment in the State Treasurer's local government investment pool, Texpool, represented 47.01% of the total portfolio. Investment in a second local government investment pool, LOGIC, represented .05% of the total portfolio. Investment in a third local government investment pool, TexStar, represented 45.19% of the total portfolio. Holdings in a AAA-rated money market mutual fund represented 1.09% of the total portfolio. The remaining .65 % of the portfolio is invested in FDIC insured or fully collateralized bank deposits.

#### **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, 2012, the portfolio contained two holdings in the portfolio with stated maturity dates beyond one year representing 6.03 % of the total portfolio, and the weighted average of the combined portfolio was 32 days.

As of September 30, 2012, the portfolio contained one 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 \$475 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, 2012, 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, 2012, for each of the next five years and in the aggregate follows:

	<u>TOTAL</u>
For the Year Ended September 30,:	
2013	3,367,614
2014	3,367,614
2015	3,367,614
2016	3,367,614
2017	3,367,614
Thereafter	<u>30,308,522</u>
MINIMUM FUTURE LEASE PAYMENTS	<u><u>47,146,592</u></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, :			
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
2017	878,218	823,097	1,701,315
Thereafter	11,266,559	4,045,309	15,311,868
MINIMUM FUTURE LEASE PAYMENTS	<u>15,118,214</u>	<u>8,700,214</u>	<u>23,818,428</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.

As more fully described in Note 13, effective October 1, 2012 the above agreements were renegotiated.

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, 2011 upon which the levy for the 2012 fiscal year was based was \$19,222,108,392.

The tax rate assessed for the year ended September 30, 2012 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, 2012 were 96% 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, 2011	CURRENT YEAR LEVY	TOTAL COLLECTIONS	ADJUSTMENTS	BALANCE SEPTEMBER 30, 2012
Delinquent Taxes Receivable	2,027,667	31,381,381	31,016,300	(477,695)	1,915,053
Allowance for Uncollectible Taxes	(904,344)	--	--	(37,097)	(941,441)
<b>NET DELINQUENT TAX RECEIVABLE</b>	<b>1,123,323</b>	<b>31,381,381</b>	<b>31,016,300</b>	<b>(514,792)</b>	<b>973,612</b>

Note 7 – CAPITAL ASSETS

A summary of changes in the capital assets follows:

	BALANCE, OCTOBER 1, 2011	ADDITIONS	REDUCTIONS	BALANCE, SEPTEMBER 30, 2012
<b>Capital Assets, Not Being Depreciated:</b>				
Land	574,450	--	--	574,450
Land Leased to Spohn	2,502,476	--	--	2,502,476
<b>Total Capital Assets, Not Being Depreciated</b>	<b>3,076,926</b>	<b>--</b>	<b>--</b>	<b>3,076,926</b>
<b>Capital Assets, Being Depreciated:</b>				
Equipment	1,301,135	25,826	--	1,326,961
Buildings Leased to Spohn	28,073,023	--	--	28,073,023
<b>Total Capital Assets, Being Depreciated</b>	<b>29,374,158</b>	<b>25,826</b>	<b>--</b>	<b>29,399,984</b>
<b>Less Accumulated Depreciation for</b>				
Equipment	888,973	88,906	--	977,879
Buildings Leased to Spohn	21,300,512	430,340	--	21,730,852
<b>Total Accumulated Depreciation</b>	<b>22,189,484</b>	<b>519,246</b>	<b>--</b>	<b>22,708,731</b>
<b>Total Capital Assets, Being Depreciated, Net</b>	<b>7,184,673</b>	<b>(493,420)</b>	<b>--</b>	<b>6,691,253</b>
<b>TOTAL CAPITAL ASSETS, NET</b>	<b>10,261,599</b>	<b>(493,420)</b>	<b>--</b>	<b>9,768,179</b>

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, 2012 consist of the following:

General Fund:	
Property Taxes	973,612
Hospital Lease	<u>15,118,214</u>
<b>TOTAL DEFERRED REVENUES</b>	<b><u><u>16,091,826</u></u></b>

Note 9 – LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions of the District for the year ended September 30, 2012:

	<u>BALANCE, OCTOBER 1, 2011</u>	<u>ADDITIONS</u>	<u>REDUCTIONS</u>	<u>BALANCE, SEPTEMBER 30, 2012</u>	<u>DUE WITHIN ONE YEAR</u>
Bonds:					
Limited Tax Refunding					
Bonds Series 2003	6,845,000	--	1,615,000	5,230,000	1,675,000
Premium	(394)	--	158	(236)	--
Deferred Loss on Refunding					
Refunding	(48,864)	--	19,688	(29,176)	--
Total Bonds	<u>6,795,742</u>	<u>--</u>	<u>1,634,846</u>	<u>5,200,588</u>	<u>1,675,000</u>
Other Liabilities-					
Accrued Paid Time Off	<u>66,900</u>	<u>148,270</u>	<u>143,933</u>	<u>71,237</u>	<u>--</u>
<b>TOTAL</b>	<b><u><u>6,862,642</u></u></b>	<b><u><u>148,270</u></u></b>	<b><u><u>1,778,779</u></u></b>	<b><u><u>5,271,825</u></u></b>	<b><u><u>1,675,000</u></u></b>

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

The bond covenants do not require a separate sinking fund. However, the District has an assigned cash account for making debt payments. The balance of this account is \$472,466 at September 30, 2012. The District had sufficient cash and cash equivalents at year end to cover current maturities of bonds payable.

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

	<u>REQUIREMENTS</u>		
	<u>PRINCIPAL</u>	<u>INTEREST</u>	<u>TOTAL</u>
For the Year Ended September 30,:			
2013	1,675,000	207,665	1,882,665
2014	1,740,000	144,015	1,884,015
2015	<u>1,815,000</u>	<u>74,415</u>	<u>1,889,415</u>
<b>TOTAL</b>	<b><u><u>5,230,000</u></u></b>	<b><u><u>426,095</u></u></b>	<b><u><u>5,656,095</u></u></b>

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 this non-cancelable operating lease payable during the year ended September 30, 2013 amount to \$77,809.

Rental payments under all operating leases amounted to \$113,871 during the year ended September 30, 2012.

Note 11 – INTERFUND TRANSACTIONS AND BALANCES

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

	<b>TRANSFERS OUT</b>			<b>TOTAL</b>
	<b>GENERAL FUND</b>	<b>INDIGENT CARE FUND</b>	<b>TOBACCO SETTLEMENT FUND</b>	
<b><u>TRANSFERS IN</u></b>				
General Fund	--	5,000,000	699,000	5,699,000
Debt Service Fund	1,882,479	--	--	1,882,479
<b>TOTAL</b>	<b>1,882,479</b>	<b>5,000,000</b>	<b>699,000</b>	<b>7,581,479</b>

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, 2012, 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, 2012, the District had retirement plan expense of \$69,355.

**Deferred Compensation Plan**

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

## Note 13 - SUBSEQUENT EVENTS

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

These changes serve multiple purposes including to facilitate (1) the District's ability to serve as the Region 4 Anchor Entity under the Texas Health and Human Services Commission's Medicaid Section 1115 Demonstration Waiver, approved by the Centers for Medicare and Medicaid Services on December 12, 2011 (the "Waiver") and (2) Spohn's and other Region 4 hospitals' ability to participate in Medicaid supplemental funding under the Waiver, to the benefit of the Nueces County indigent residents served by the District.

# **Combining Schedules**

**NUECES COUNTY HOSPITAL DISTRICT**  
**(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)**  
**COMBINING BALANCE SHEET**  
**NONMAJOR GOVERNMENTAL FUNDS**  
**SEPTEMBER 30, 2012**

<b>ASSETS</b>	<b>SPECIAL REVENUE TOBACCO SETTLEMENT FUND</b>	<b>DEBT SERVICE FUND</b>	<b>TOTAL NONMAJOR GOVERNMENTAL FUNDS</b>
Cash and Cash Equivalents	748	472,466	473,214
Accrued Interest Receivable	--	4	4
<b>TOTAL ASSETS</b>	<b>748</b>	<b>472,470</b>	<b>473,214</b>
<b>LIABILITIES AND FUND BALANCE</b>			
Current Liabilities-			
Accrued Interest	--	51,916	51,916
Fund Balance:			
Assigned to:			
County Health Care	748	--	748
Debt Service	--	420,554	420,554
Total Fund Balance	748	420,554	421,302
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>748</b>	<b>472,470</b>	<b>473,218</b>

**NUECES COUNTY HOSPITAL DISTRICT****(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)****COMBINING STATEMENT OF REVENUES, EXPENDITURES  
AND CHANGES IN FUND BALANCE****NONMAJOR GOVERNMENTAL FUNDS****YEAR ENDED SEPTEMBER 30, 2012**

	<b><u>SPECIAL REVENUE TOBACCO SETTLEMENT FUND</u></b>	<b><u>DEBT SERVICE FUND</u></b>	<b><u>TOTAL NONMAJOR GOVERNMENTAL FUNDS</u></b>
Revenues:			
Tobacco Settlement	698,820	--	698,820
Investment Income	126	1,062	1,188
Total Revenues	<u>698,946</u>	<u>1,062</u>	<u>700,008</u>
Debt Service:			
Principal Retirement	--	1,615,000	1,615,000
Interest and Fiscal Charges	--	252,483	252,483
Payment to Escrow Agent	--	300	300
Total Expenditures	<u>--</u>	<u>1,867,783</u>	<u>1,867,783</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	698,946	(1,866,721)	(1,167,775)
Other Financing Sources (Uses):			
Transfers In	--	1,882,479	1,882,479
Transfers Out	(699,000)	--	(699,000)
Total Other Financing Sources (Uses)	<u>(699,000)</u>	<u>1,882,479</u>	<u>1,183,479</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Uses	(54)	15,758	15,704
Fund Balance, Beginning of Year	<u>802</u>	<u>404,796</u>	<u>405,598</u>
FUND BALANCE, END OF YEAR	<u><u>748</u></u>	<u><u>420,554</u></u>	<u><u>421,302</u></u>

# **Budget Comparisons**

**NUECES COUNTY HOSPITAL DISTRICT****(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)****GENERAL FUND****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE****BUDGET (GAAP BASIS) AND ACTUAL****YEAR ENDED SEPTEMBER 30, 2012**

	<b><u>ORIGINAL AND FINAL BUDGET</u></b>	<b><u>ACTUAL GAAP BASIS</u></b>	<b><u>VARIANCE FAVORABLE (UNFAVORABLE)</u></b>
Revenues:			
Taxes	29,731,567	30,688,823	957,256
Penalties and Interest - Taxes	290,064	361,204	71,140
Leases - Spohn Health System	625,602	625,602	--
Rental - Spohn Health System	3,367,615	3,367,615	--
Investment Income	1,081,040	1,087,373	6,333
Other	--	31,088	31,088
Total Revenues	<u>35,095,888</u>	<u>36,161,705</u>	<u>1,065,817</u>
Expenditures:			
Current:			
General Government:			
Administration:			
Personal Services	598,826	566,663	32,163
Materials and Supplies	36,420	31,902	4,518
Contractual Services	1,065,988	889,361	176,627
Other	168,456	146,021	22,435
Total Administration	<u>1,869,690</u>	<u>1,633,947</u>	<u>235,743</u>
Facilities Management-			
Materials and Supplies	2,100	977	1,123
Total General Government	<u>1,871,790</u>	<u>1,634,924</u>	<u>236,866</u>
Health:			
Personal Services	1,227,313	1,124,034	103,279
Materials and Supplies	38,800	31,691	7,109
Contractual Services	458,150	443,916	14,234
Indigent Care	31,172,643	31,100,211	72,432
City and County Services	5,281,799	5,220,992	60,807
Other	15,150	5,831	9,319
Total Health	<u>38,193,855</u>	<u>37,926,675</u>	<u>267,180</u>
Capital Outlay	45,000	25,826	19,174
Total Current Expenditures	<u>40,110,645</u>	<u>39,587,425</u>	<u>523,220</u>
Deficiency of Revenues Over Expenditures	(5,014,757)	(3,425,720)	1,589,037
Other Sources (Uses):			
Transfers In	6,035,000	5,699,000	(336,000)
Transfers Out	(1,882,479)	(1,882,479)	--
Total Other Financing Sources	<u>4,152,521</u>	<u>3,816,521</u>	<u>(336,000)</u>
Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Uses	<u>(862,236)</u>	390,801	<u>1,253,037</u>
Fund Balance, Beginning of Year		<u>4,620,547</u>	
FUND BALANCE, END OF YEAR		<u>5,011,348</u>	

**NUECES COUNTY HOSPITAL DISTRICT****(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)****INDIGENT CARE FUND****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET (GAAP BASIS) AND ACTUAL****YEAR ENDED SEPTEMBER 30, 2012**

	<b><u>ORIGINAL AND FINAL BUDGET</u></b>	<b><u>ACTUAL GAAP BASIS</u></b>	<b><u>VARIANCE FAVORABLE (UNFAVORABLE)</u></b>
Revenues -			
Investment Income	30,110	58,594	28,484
Total Revenues	<u>30,110</u>	<u>58,594</u>	<u>28,484</u>
Other Financing Uses -			
Transfers Out	(5,585,000)	(5,000,000)	585,000
Total Other Financing Uses	<u>(5,585,000)</u>	<u>(5,000,000)</u>	<u>585,000</u>
Excess (Deficiency) of Revenues and Other Other Financing Sources	<u>(5,554,890)</u>	(4,941,406)	<u>613,484</u>
Fund Balance, Beginning of Year		<u>32,030,990</u>	
FUND BALANCE, END OF YEAR		<u><u>27,089,584</u></u>	

**NUECES COUNTY HOSPITAL DISTRICT****(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)****TOBACCO SETTLEMENT FUND****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET (GAAP BASIS) AND ACTUAL****YEAR ENDED SEPTEMBER 30, 2012**

	<b><u>ORIGINAL AND FINAL BUDGET</u></b>	<b><u>ACTUAL GAAP BASIS</u></b>	<b><u>VARIANCE FAVORABLE (UNFAVORABLE)</u></b>
Revenues:			
Tobacco Settlement	450,000	698,820	248,820
Investment Income	--	126	126
Total Revenues	<u>450,000</u>	<u>698,946</u>	<u>248,946</u>
Other Financing Uses-			
Transfers Out	(450,000)	(699,000)	(249,000)
Total Other Financing Uses	<u>(450,000)</u>	<u>(699,000)</u>	<u>(249,000)</u>
Excess of Revenues Over Other Financing Uses	<u>    --</u>	(54)	<u>    (54)</u>
Fund Balance, Beginning of Year		<u>802</u>	
FUND BALANCE, END OF YEAR		<u>    748</u>	

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**NUECES COUNTY HOSPITAL DISTRICT****(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)****DEBT SERVICE FUND****SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES  
IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL****YEAR ENDED SEPTEMBER 30, 2012**

	<b><u>ORIGINAL AND FINAL BUDGET</u></b>	<b><u>ACTUAL GAAP BASIS</u></b>	<b><u>VARIANCE FAVORABLE (UNFAVORABLE)</u></b>
Revenues - Interest	465	1,062	597
Expenditures:			
Principal	1,615,000	1,615,000	--
Interest and Fiscal Charges	252,483	252,483	--
Payment to Escrow Agent	500	300	200
Total Expenditures	<u>1,867,983</u>	<u>1,867,783</u>	<u>200</u>
Deficiency of Revenues Over Expenditures	(1,867,518)	(1,866,721)	797
Other Financing Sources - Operating Transfers In	<u>1,882,479</u>	<u>1,882,479</u>	<u>--</u>
Excess of Revenues and Other Financing Sources Over Expenditures	<u>14,961</u>	15,758	<u>797</u>
Fund Balance, Beginning of Year		<u>404,796</u>	
FUND BALANCE, END OF YEAR		<u><u>420,554</u></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 20, 2012

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, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents and have issued our report thereon dated December 20, 2012. 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