NUECES COUNTY HOSPITAL DISTRICT

ANNUAL FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2020

NUECES COUNTY HOSPITAL DISTRICT
AUDITED FINANCIAL STATEMENTS
YEAR ENDED SEPTEMBER 30, 2020

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INDEPENDENT AUDITOR'S REPORT

February 16, 2021

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

Report on the Financial Statements

We have audited the financial statements of the governmental activities and each major fund of the Nueces County Hospital District, a component unit of Nueces County, Texas, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Nueces County Hospital District as of September 30, 2020, and the respective changes in financial position and budgetary comparisons for the general fund, indigent care fund and tobacco settlement fund thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Governmental Auditing Standards*, we have also issued our report dated February 16, 2021 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 effectiveness of the District's 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 the Nueces County Hospital District's internal control over financial reporting and compliance.

Collier, Johnson & Woods

Nueces County Hospital District
Management's Discussion and Analysis
For Fiscal Year Ended September 30, 2020

This Management's Discussion and Analysis ("MD&A") of the Nueces County Hospital District ("District"), a political subdivision of the State of Texas and component unit of Nueces County, Texas ("County"), is intended to provide an overview of the District's financial position and results of operation for year ended September 30, 2020 ("Fiscal Year 2020"). 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

The District's net position increased $19.4 million or 17.7% compared to the prior year net position. The net position of the District on September 30, 2020 and 2019 was $128.8 million and $109.4 million, respectively. Cash, cash equivalents, and investments amounted to $122.5 million and $99.9 million which represent 93.4% of total assets for September 30, 2020 and 89.6% for 2019, respectively.

In Fiscal Year 2020, the District's General Fund Balance increased $18.2 million or 39.8% compared to the prior year balance. At fiscal year ended September 30, 2020, the District's General Fund balance was $63.9 million compared to $45.7 million in 2019.

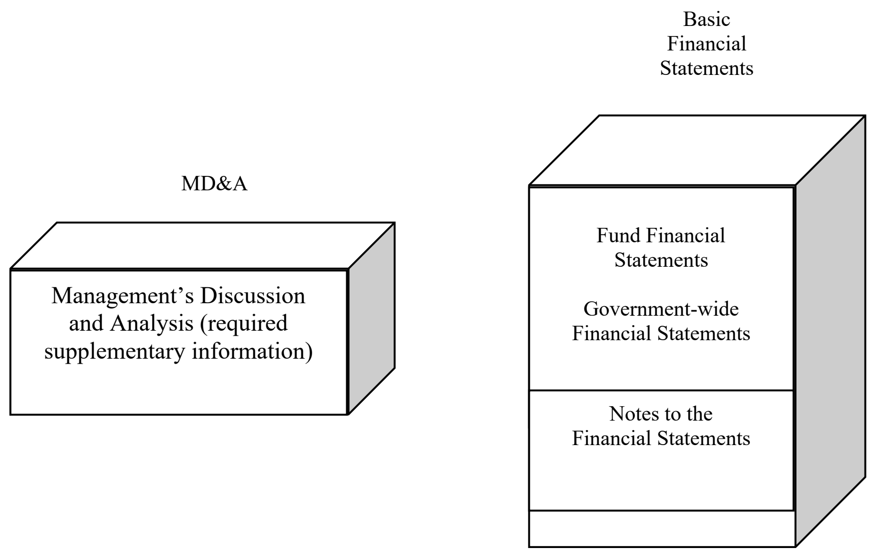
In Fiscal Year 2020, the District's total revenues decreased $21.9 million or 15.0% compared to the prior year. 71.4% of the District's total revenues were from non-tax sources. The District's total expenses decreased $20.7 million or 16.5% compared to the prior year.

In Fiscal Year 2020, the District continued to make voluntary intergovernmental transfers for several Medicaid-related supplemental payment, waiver, and Medicaid managed care provider payment initiative programs sponsored by the State ("Medicaid Payment Programs"). These transferred funds enabled both local and regional health care providers, who provide indigent healthcare consistent with the District's primary mission, to draw additional Medicaid funds. The intergovernmental transfers provided funding to draw over 95% of the total value of providers' waiver program projects in Nueces County and over 85% of the total value of providers' waiver program projects in the region.

In Fiscal Year 2020, the District's Board of Managers committed $39.9 million of the District's fiscal year-end General Fund balance cash to funding the Medicaid Payment Programs-related intergovernmental transfers that are expected to be requested sometime during the District's subsequent fiscal year. Please refer to Note 12 on intergovernmental transfers and Note 13 on committed fund balance.

OVERVIEW OF THE FINANCIAL STATEMENTS

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



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

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 and Special Revenue 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 former hospital, Memorial Medical Center. The fund may be used to subsidize the District's current employees with their health insurance premiums and other Board-approved allowable Trust benefits.

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.

GOVERNMENT WIDE-FINANCIAL ANALYSIS

Statement of Net Position (Government-Wide)

The District's total Net Position was $128.8 million and $109.4 million as of September 30, 2020 and 2019, respectively, an increase of $19.4 million or 17.7%. Total assets increased $19.8 million or 17.7% compared to September 30, 2019. The District's total liabilities increased $373 thousand or 17.8% compared to September 30, 2019.

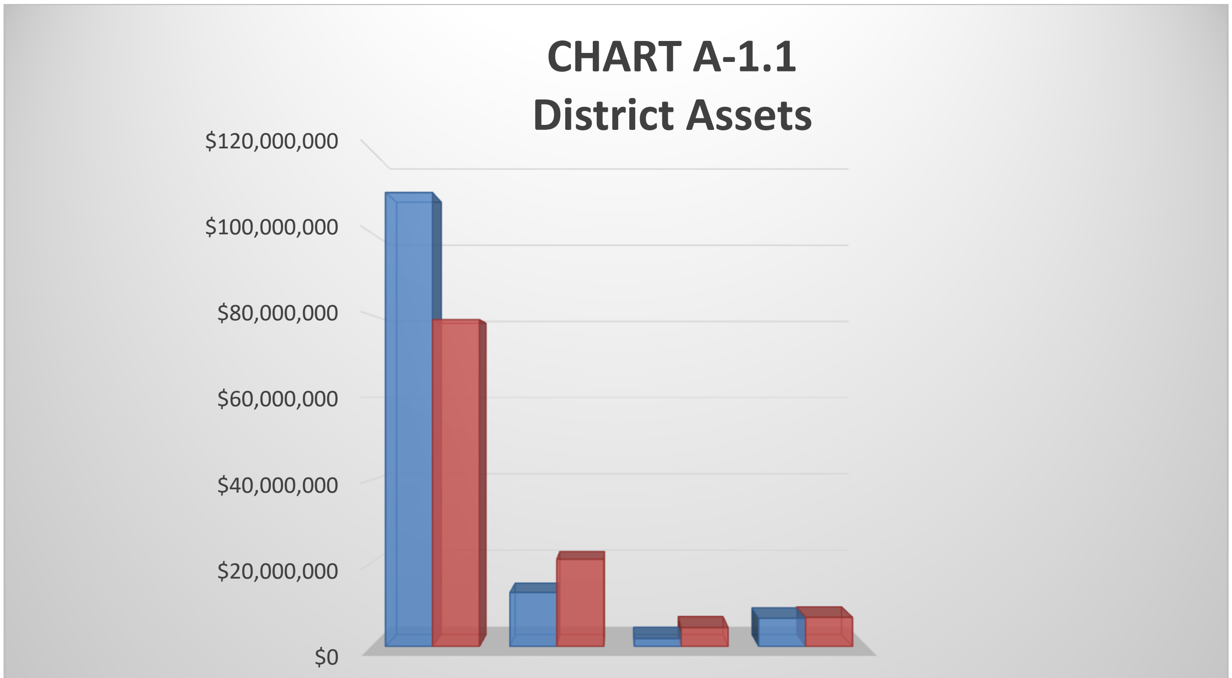
TABLE A-1
Nueces County Hospital District Net Position
September 30, 2020 and 2019
(In Thousands)

	2020	2019	2020-2019 Variance
Assets:			
Cash and Cash Equivalents	$ 109,541	$ 78,866	$ 30,675
Investments	12,997	20,991	(7,994)
Other Assets	1,900	4,578	(2,678)
Capital Assets (Net of Accumulated Depreciation)	6,788	7,028	(240)
Total Assets	131,226	111,463	19,763
Liabilities:			
Accounts Payable	2,196	1,864	332
Accrued Payroll and Related Liabilities	235	204	31
Long-Term Liabilities - Accrued Paid Time Off	41	31	10
Total Liabilities	2,472	2,099	373
Net Position:			
Net Investment in Capital Assets	6,788	7,028	(240)
Unrestricted	121,966	102,336	19,630
Total Net Position	$ 128,754	$ 109,364	$ 19,390

Financial Analysis

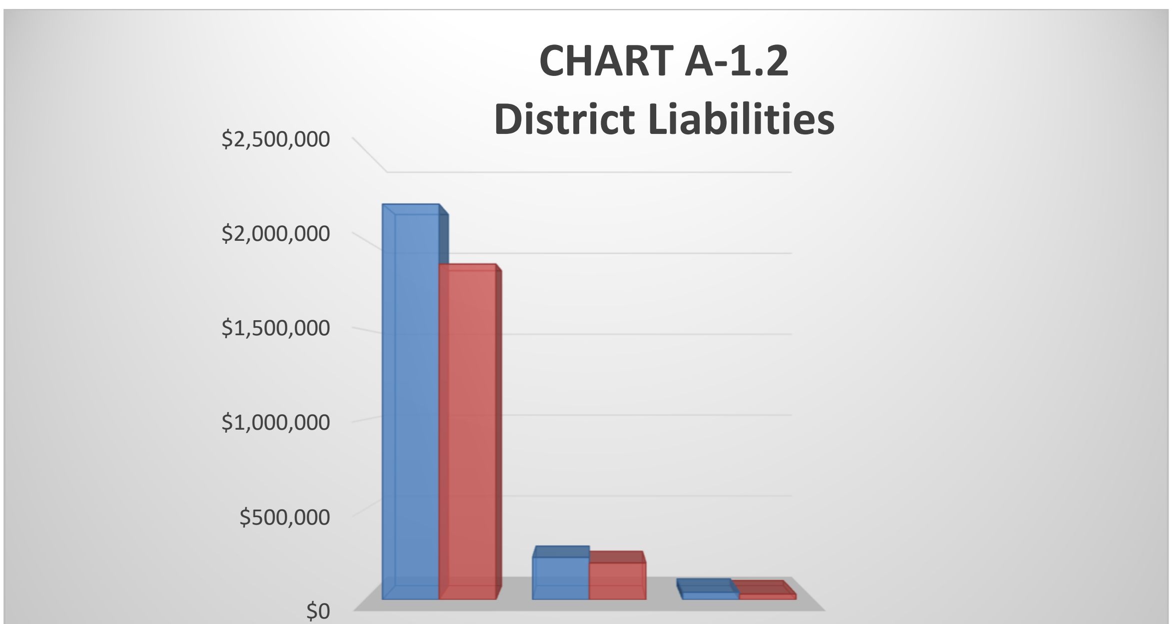
In Fiscal Year 2020, the $22.7 million or 22.7% net increase in cash and cash equivalents and investments combined is in part the result of a reduction in total intergovernmental transfers and the receipt of various Medicaid Payment Program refunds during the year. Other Assets decreased $2.7 million primarily from a decrease in receivables from Nueces Center for Mental Health and Intellectual Disabilities (MHID). The $240 thousand or 3.4% decrease in Capital Assets (Net of Accumulated Depreciation) mainly relates to depreciation expense. Accounts Payable and Related Liabilities increased $373 thousand or 17.8% due to annual fluctuations in payments of accrued liabilities.

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



	Cash and Cash Equivalents	Investments	Other Assets	Capital Assets
FY 2020	$109,541,000	$12,997,000	$1,900,000	$6,788,000
FY 2019	$78,866,000	$20,991,000	$4,578,000	$7,028,000

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



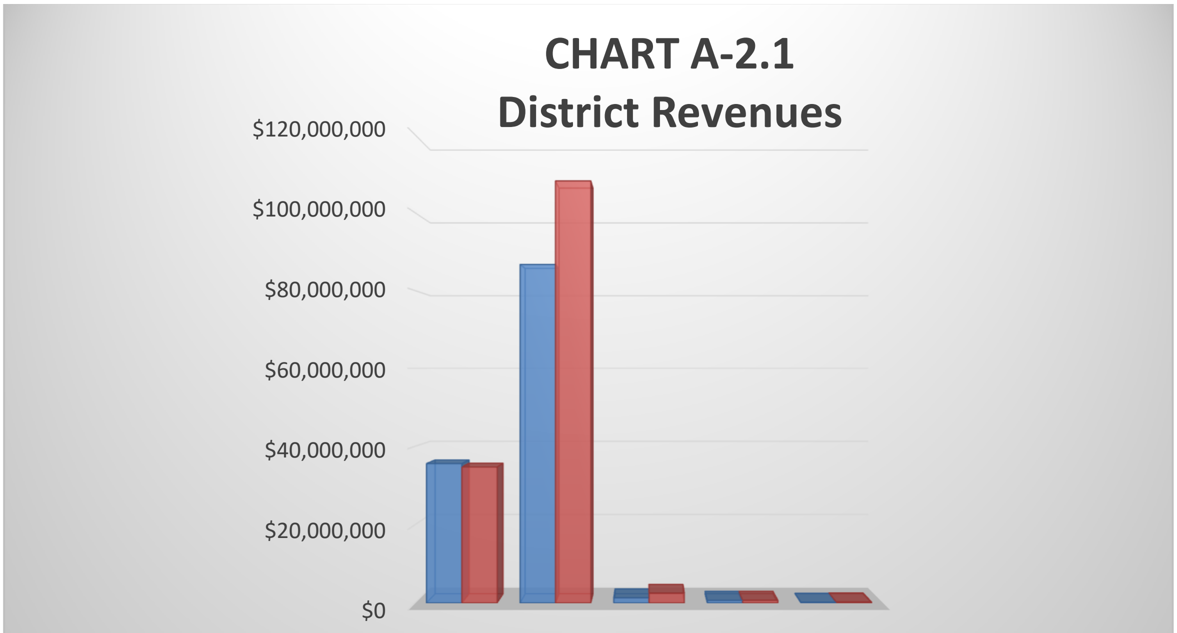
	Accounts Payable	Accrued Payroll & Retained Liabilities	Long-Term Liabilities
FY 2020	$2,196,000	$235,000	$41,000
FY 2019	$1,864,000	$204,000	$31,000

Statement of Activities (Government-Wide)

TABLE A-2
Changes in Nueces County Hospital District Net Position
September 30, 2020 and 2019
(In Thousands)

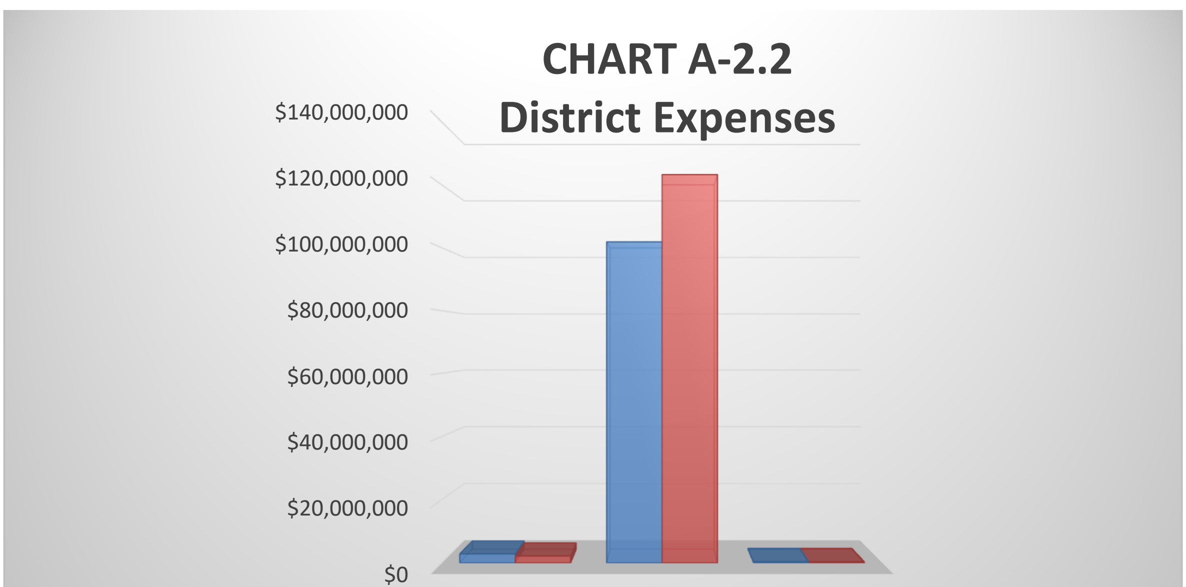
Revenues	**2020**	**2019**	**2020-2019 Variance**
Property Taxes and Penalties and Interest	$ 35,592	$ 34,717	$ 875
Spohn Corporate Membership Revenue	86,728	108,187	(21,459)
Investment Income	1,312	2,517	(1,205)
Tobacco Proceeds	661	687	(26)
Other	174	258	(84)
Total Revenues	124,467	146,366	(21,899)
Expenses:			
General Government	2,846	2,170	676
Health	101,890	123,264	(21,374)
Depreciation	341	333	8
Total Expenses	105,077	125,767	(20,690)
Net Change in Net Position	19,390	20,599	(1,209)
Net Position, Beginning of Year	109,364	88,765	--
NET POSITION, END OF YEAR	$ 128,754	$ 109,364	$ (1,209)

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



	Property Taxes, Penalties & Interest	Spohn Revenue	Investment Income	Tobacco Proceeds	Other
FY 2020	$35,592,000	$86,728,000	$1,312,000	$661,000	$174,000
FY 2019	$34,717,000	$108,187,000	$2,517,000	$687,000	$258,000

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



	General Government	Health	Depreciation
FY 2020	$2,846,000	$101,890,000	$341,000
FY 2019	$2,170,000	$123,264,000	$333,000

FINANCIAL ANALYSIS

Revenues

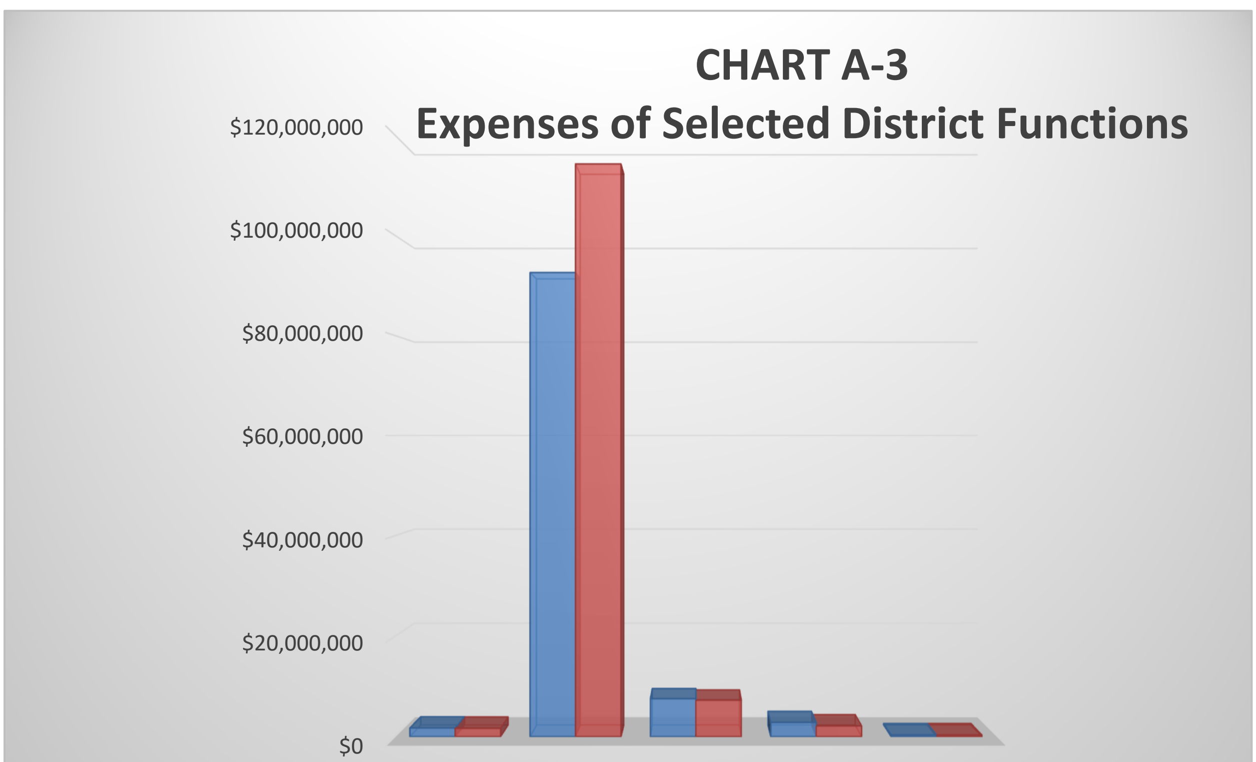
In Fiscal Year 2020, the District's total revenues decreased $21.9 million or 15.0% compared to the prior fiscal year. There were four principal sources of revenue for the District. The first source of revenue is from ad valorem taxes levied on Nueces County property owners based on assessed valuations. These tax revenues increased by $875 thousand or 2.5% and accounted for 28.6% of total revenues compared to 23.7% in the prior fiscal year. The District's tax rate during Fiscal Year 2020 decreased to the effective tax rate of $0.112421 per $100 valuation. Property valuations increased by $2.0 billion or 6.6%. The second source is from the Membership Agreement with Spohn which accounted for $86.7 million and 69.7% of total revenue. This revenue decreased $21.5 million, or 19.8%, resulting from decreased net patient revenue sharing allocation percentage utilized during the fiscal year. See Note 3 for an outline of the Membership Agreement. The third source is investment income which decreased $1.2 million or 47.9% due to lower interest rates. The fourth source is a Tobacco Settlement distribution from the State of Texas' tobacco litigation which decreased by $26 thousand or 3.8% compared to prior fiscal year. Additional revenue proceeds which include a reimbursement from the State for the District's assistance in operating one of the Medicaid Payment Programs in the region had a decrease of $84 thousand from prior fiscal year or 32.6%.

TABLE A-3
Net Cost of Selected District Functions
September 30, 2020 and 2019
(In Thousands)

	2020	2019	2020-2019 Variance
Eligibility	$ 1,737	$ 1,699	$ 38
Intergovernmental Transfers (IGT)	92,581	114,277	(21,696)
County Healthcare Expenditures	7,572	7,288	284
Administration and General	2,846	2,170	676
Depreciation	341	333	8
TOTAL	$ 105,077	$ 125,767	$ (20,690)

Expenses

The expenses of the District's functions in Fiscal Year 2020 decreased $20.7 million or 16.5% compared to the prior fiscal year. The District's health functions include intergovernmental transfers and county healthcare expenditures. The District's largest amount of costs is voluntary intergovernmental transfers to the State for the benefit of various regional health care providers who provide indigent healthcare. The intergovernmental transfers draw down additional Medicaid funds for regional providers under the Medicaid Payment Programs. This cost totaled $92.6 million in Fiscal Year 2020 and represented 88.1% of all functional expenditures. The second largest amount of cost is $7.6 million for county healthcare expenditures which relates to the District's support of other healthcare services in Nueces 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 emergency medical services, 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 Nueces Center for Mental and Intellectual Disabilities and costs associated with operation of the County Jail's infirmary. This cost increased $284 thousand or 3.9% in Fiscal Year 2020 compared to the prior fiscal year. County healthcare expenditure costs represented 7.2% of all the District's net costs in Fiscal Year 2020 compared to 5.8% in the prior fiscal year. The two other costs of the District were Administrative and General and Eligibility determination costs. Collectively, these costs increased $714 thousand or 18.5% during Fiscal Year 2020 compared to the prior fiscal year. Major costs in this category were legal fees, consulting fees, rents, supplies, purchased services, and salaries and benefits. Administrative and General costs represented 2.7% of all net costs in Fiscal Year 2020 compared to 1.7% in the prior fiscal year. Eligibility costs represented 1.7% of all net costs in Fiscal Year 2020 compared to 1.4% in the prior fiscal year. Please refer to Table A-3 for details of Chart A-3 below relating to the District's net cost of selected functions.



	Eligibility	IGT	County Health Expenditures	Administration & General	Depreciation
FY 2020	$1,737,000	$92,581,000	$7,572,000	$2,846,000	$341,000
FY 2019	$1,699,000	$114,277,000	$7,288,000	$2,170,000	$333,000

General Fund Budgetary Highlights

Expectations for the District's general fund budget were surpassed during Fiscal Year 2020.

Revenues

Revenues exceeded budget by $3.5 million. The excess is partially attributed to revenue resulted from the Membership Agreement, which surpassed budget by $2.2 million. The surplus is due to the use of an estimate of the Membership Agreement's initial revenue sharing allocation percentage between the District and Spohn when the Fiscal Year 2020 budget was developed; due to the difficulty in projecting Spohn's net patient revenues, the District is only able to estimate the Membership Agreement-related sharing allocation. Ad valorem tax revenue combined with penalties and interest, exceeded budget by $1.3 million. Investment income also exceeded budget by $78 thousand. Finally, other income, including a reimbursement from the State for the District's assistance in operating one of the State's Medicaid Payment Programs in the region, recovery of certain prior fiscal year's expenses, and jail health care reimbursements from another governmental entity, fell short of budget by approximately $126 thousand. This was mainly due to a smaller request for reimbursement from the State than had been estimated at the time of budget.

Expenditures

Expenditures were less than budget by $23.9 million. Of the expenditures less than budget, $22.3 million was associated with Medicaid Payment Programs-related intergovernmental transfers from the District. Due to the complex nature of the calculations of intergovernmental transfers, the District is only able to approximate an amount at the time its budget is adopted. The District had also received various refunds relating to prior years payment program reconciliations. County Services were under budget by $959 thousand primarily due to overestimated jail diversion program costs. Personal services were less than budget by $247 thousand due to the increased utilization of the District's paid-time-off accrued liability and less than maximum participation of certain benefit programs. Contractual Services were under budget this year by $343 thousand mainly due to less utilization of legal fees and consultant fees for one of the Medicaid Payment Programs. The Materials and Supplies category was over budget by $8 thousand mainly resulting from unanticipated COVID-19 pandemic related expenditures. Finally, the Other category which includes office lease and administrative expenditures ended under budget by approximately $18 thousand.

CAPITAL ASSETS

The District had $6.8 million in net capital assets at the end of September 30, 2020. The breakdown of the capital assets is as follows:

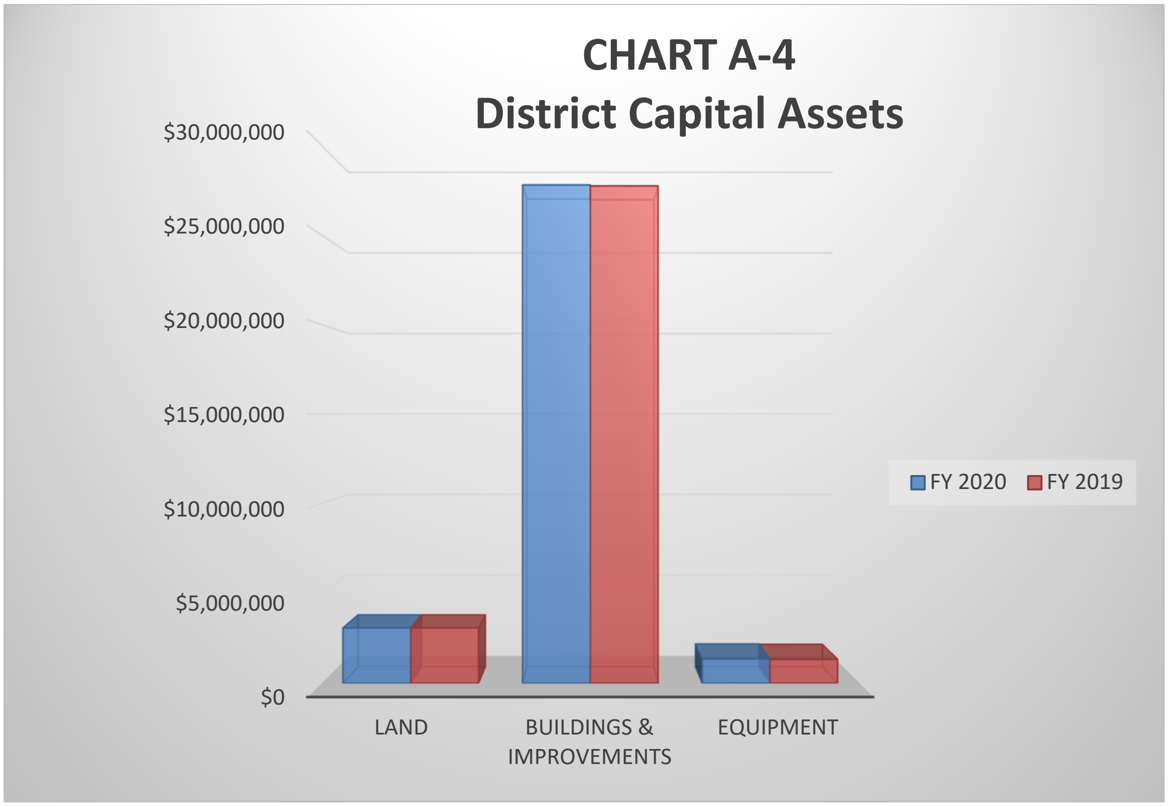
TABLE A-4
Nueces County Hospital District's Capital Assets
September 30, 2020 and 2019
(In Thousands)

	2020	2019	2020-2019 Variance
Land	$ 3,077	$ 3,077	$ --
Buildings and Improvements	27,760	27,710	50
Equipment	1,356	1,329	27
Total	32,193	32,116	77
Less: Accumulated Depreciation	25,405	25,089	316
NET CAPITAL ASSETS	$ 6,788	$ 7,027	$ (239)

Under terms of the Membership Agreement, the District contributed the use of its former hospital Memorial Medical Center (MMC) buildings and equipment to Spohn; and Spohn is responsible for maintaining the buildings and equipment, and the purchase of any medical and other equipment needed during the Agreement's term. The Membership Agreement requires that Spohn spend $600 thousand on upkeep of the buildings and equipment in each calendar year starting in 2017 and thereafter. Please refer to Note 8 - Capital Assets of the Financial Statements for more details on capital assets.

During Fiscal Year 2020, net capital assets decreased by $239 thousand mostly due to depreciation. The District held no surplus equipment auctions during the year.

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



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

Economic Factors

For the forthcoming fiscal year and subsequent fiscal years, the Coronavirus pandemic, possible expiration of the Medicaid waiver program, State budget pressures and shifting priorities may alter funding, services, programs, or eligibility for its Medicaid program which could affect enrollments in the District's indigent health care program. Texas has the highest health care uninsured rate in the nation and the County's rate is among the highest in the State. The benefits of the Patient Protection and Affordable Care Act (P.L. 111-148) and the Health Care and Education Reconciliation Act of 2010 (P.L. 111-152) legislation that was intended to reduce the number of health care uninsured persons and expand Medicaid has not yet been realized in Texas; during the forthcoming District fiscal year, these unrealized benefits may affect the number of persons enrolled in the District's indigent health care program. Additionally, the P.L. 111-148 individual mandate to carry health insurance was repealed effective 2019; during the forthcoming District fiscal year, this action may affect the number of persons enrolled in the District's indigent health care program. Also, there may be alterations to aspects of P.L. 111-148, and P.L. 111-152, due to proposed block granting of Medicaid funds to the States and/or other reductions of Medicaid funds to the States, each of which may affect the indigent health care program's enrollment. In addition, proposed federal regulations would limit the methods States can use to finance the non-federal share of Medicaid payments, jeopardizing the availability and/or continuation of indigent health care services in the community. Finally, potential changes could occur to the Patient Protection and Affordable Care Act, Health Care and Education Reconciliation Act, and Medicaid program as a result of changes to national health policy.

Next Year's Budget, Tax Rates, and Property Valuations

Budget

For the District's forthcoming fiscal year ending September 30, 2021 ("Fiscal Year 2021"), the District's Board of Managers and County Commissioners Court approved a District operating budget wherein expenditures exceed revenues by $42.9 million. The deficit is planned, attributable to the usage of certain committed funds to supplement intergovernmental transfer expenditures for the State's Medicaid Payment Programs. Revenues are budgeted at $41.5 million, a 65.1% decrease compared to the prior fiscal year. Expenditures are budgeted at $84.4 million, a 34.4% decrease compared to the prior fiscal year.

Tax Rates and Property Valuations

The property valuations for the District's forthcoming fiscal year ending September 30, 2021 are $33.7 billion, an increase of 4.7% from the prior year. To offset this increase, County Commissioners Court has decreased the District's tax rate for the Fiscal Year 2021 budget to $0.111824 per $100 valuation, which is 3% above the no-new-revenue tax rate. The Fiscal Year 2021 budget estimates include tax revenues of $34.9 million, an increase of $1.3 million or 3.8% over Fiscal Year 2020. Certain prior year refinery related property value lawsuits are still pending and potential refunds have been applied to the tax revenue budget. The District expects tax base expansion and increases in property values to approximate recent years.

Financial Planning

The District does not receive State or federal funding for provision of indigent health care. However, the District expects to continue receiving de minimis reimbursement annually from the State for the District assisting it in operating one of the Medicaid Payment Programs in the region; the program has been extended for four additional years, however it is unknown if future extensions will occur. The District expects that the Membership Agreement's revenue sharing allocation percentage between the District and Spohn will be insufficient to support some of the District's objectives in the forthcoming fiscal year and the District will rely on its reserves to fund operations to a greater degree than the prior year. Federal regulations governing certain provisions of the Membership Agreement and past State actions relating to certain disallowances may potentially affect future performance of the Agreement; it is possible that the current permitted use of a combination of tax and Membership Agreement-related revenues by the District to make voluntary intergovernmental transfers to the State in support of the Medicaid Payment Programs could change in the future.

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 how the District's funds are used. Questions concerning any of the information contained in these statements or requests for additional statement information can be directed to the District at:

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

HISTORICAL AUDITED FINANCIAL STATEMENTS

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

Basic Financial Statements

NUECES COUNTY HOSPITAL DISTRICT

(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

GOVERNMENTAL FUNDS BALANCE SHEET / STATEMENT OF NET POSITION

SEPTEMBER 30, 2020

	GENERAL	INDIGENT CARE FUND	TOBACCO SETTLEMENT FUND
ASSETS			
Cash and Cash Equivalents (Note 4)	66,196,981	43,343,323	838
Investments (Note 4 and Note 5)	--	12,996,632	--
Accrued Interest	--	4,737	--
Taxes Receivable Net Of Allowance for Uncollectibles (Note 7 and 9):	1,759,550	--	--
Other Receivables	3,251	--	--
Prepaid Expenditures	132,947	--	--
Land (Note 8)	--	--	--
Other Capital Assets, net of Accumulated Depreciation (Note 8)	--	--	--
TOTAL ASSETS	68,092,729	56,344,692	838

Exhibit 1

GOVERNMENTAL FUNDS TOTAL	ADJUSTMENTS EXHIBIT 2	STATEMENT OF NET POSITION
109,541,142	--	109,541,142
12,996,632	--	12,996,632
4,737	--	4,737
1,759,550	--	1,759,550
3,251	--	3,251
132,947	--	132,947
--	3,076,927	3,076,927
--	3,710,897	3,710,897
124,438,259	6,787,824	131,226,083

(Continued)

NUECES COUNTY HOSPITAL DISTRICT

(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

GOVERNMENTAL FUNDS BALANCE SHEET / STATEMENT OF NET POSITION

SEPTEMBER 30, 2020

	GENERAL	INDIGENT CARE FUND	TOBACCO SETTLEMENT FUND
LIABILITIES			
Accounts Payable	2,195,828	--	--
Accrued Payroll and Related Liabilities	234,864	--	--
Unearned Revenue (Note 9)	1,759,550	--	--
Long-term Liabilities-			
Accrued Paid Time Off (Note 10)	--	--	--
TOTAL LIABILITIES	4,190,242	--	--
FUND EQUITY/NET POSITION			
Fund Balances:			
Nonspendable	132,947	--	--
Committed to: (Note 13)			
Intergovernmental Transfers	39,918,934	--	--
Indigent Care	--	56,344,692	--
Assigned to County Health Care	--	--	838
Unassigned	23,850,606	--	--
Total Fund Equity	63,902,487	56,344,692	838
TOTAL LIABILITIES AND FUND EQUITY	68,092,729	56,344,692	838
Net Position:			
Net Investment in Capital Assets			
Unrestricted			
TOTAL NET POSITION			

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

Exhibit 1
Continued

GOVERNMENTAL FUNDS TOTAL	ADJUSTMENTS EXHIBIT 2	STATEMENT OF NET POSITION
2,195,828	--	2,195,828
234,864	--	234,864
1,759,550	(1,759,550)	--
--	41,354	41,354
4,190,242	(1,718,196)	2,472,046
132,947	(132,947)	--
39,918,934	(39,918,934)	--
56,344,692	(56,344,692)	--
838	(838)	--
23,850,606	(23,850,606)	--
120,248,017	(120,248,017)	--
124,438,259		
	6,787,824	6,787,824
	121,966,213	121,966,213
	128,754,037	128,754,037

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Exhibit 2

NUECES COUNTY HOSPITAL DISTRICT

(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

EXPLANATIONS FOR ADJUSTMENTS TO RECONCILE GOVERNMENTAL FUNDS - BALANCE SHEET TO THE STATEMENT OF NET POSITION

Total Fund Balance - Total Governmental Funds	120,248,017
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of the assets is $27,754,895 and the accumulated depreciation is $25,404,652 (Note 8)	6,787,824
Taxes receivable, net of allowance is not available to pay for current period expenditures and is, therefore, deferred in the governmental funds. (Note 7)	1,759,550
Long-Term liabilities, include accrued paid time off, are not due and payable in the current period and, therefore, are not reported in the funds. (Note 10)	(41,354)
NET POSITION	128,754,037

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, 2020

	GENERAL	INDIGENT CARE FUND	TOBACCO SETTLEMENT FUND
Revenues:			
Taxes	34,539,830	--	--
Penalties and Interest - Taxes	345,120	--	--
Spohn Corporate Membership Revenue	86,727,740	--	--
Investment Income	585,265	726,770	158
Tobacco Settlement	--	--	661,192
Other	174,012	--	--
Total Revenue	122,371,967	726,770	661,350
Expenditures/Expenses:			
General Government	2,836,158	--	--
Health	101,890,021	--	--
Depreciation	--	--	--
Capital Outlay	100,628	--	--
Total Expenditures/Expenses	104,826,807	--	--
Excess of Revenues Over Expenditures/Expenses	17,545,160	726,770	661,350
Other Financing Sources (Uses):			
Transfers In (Note 14)	661,000	--	--
Transfers Out (Note 14)	--	--	(661,000)
Total Other Financing Sources (Uses)	661,000	--	(661,000)
Net Change in Fund Balance/Net Position	18,206,160	726,770	350
Fund Balance/Net Position, Beginning of Year	45,696,327	55,617,922	488
FUND BALANCE/NET POSITION, END OF YEAR	63,902,487	56,344,692	838

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

Exhibit 3

GOVERNMENTAL FUNDS TOTAL	ADJUSTMENTS EXHIBIT 4	STATEMENT OF ACTIVITIES
34,539,830	706,799	35,246,629
345,120	--	345,120
86,727,740	--	86,727,740
1,312,193	--	1,312,193
661,192	--	661,192
174,012		174,012
123,760,087	706,799	124,466,886
2,836,158	9,720	2,845,878
101,890,021	--	101,890,021
--	340,568	340,568
100,628	(100,628)	--
104,826,807	249,660	105,076,467
18,933,280	457,139	19,390,419
661,000	(661,000)	--
(661,000)	661,000	--
--	--	--
18,933,280	457,139	19,390,419
101,314,737	8,048,881	109,363,618
120,248,017	8,506,020	128,754,037

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Exhibit 4

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	18,933,280
Amounts reported for governmental activities in the statement of net position 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 $340,568 was more than capital outlays of $100,628 in the current period. (Note 8)	(239,940)
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.	706,799
Expenses accrued for employees paid time off in the statement of activities that do not use current financial resources are not reported as expenses in the governmental funds.	(9,720)
CHANGE IN NET POSITION	19,390,419

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

Exhibit 5

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, 2020

	ORIGINAL AND FINAL BUDGET	ACTUAL GAAP BASIS	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues:			
Taxes	33,274,804	34,539,830	1,265,026
Penalties and Interest - Taxes	332,748	345,120	12,372
Spohn Corporate Membership Revenue	84,500,000	86,727,740	2,227,740
Investment Income	506,937	585,265	78,328
Other	300,000	174,012	(125,988)
Total Revenues	118,914,489	122,371,967	3,457,478
Expenditures:			
Current:			
General Government			
Administration:			
Personal Services	643,425	602,347	41,078
Materials and Supplies	50,500	56,016	(5,516)
Contractual Services	2,217,330	2,020,178	197,152
Other	169,460	157,157	12,303
Total Administration	3,080,715	2,835,698	245,017
Facilities Management -			
Materials and Supplies	1,300	460	840
Total General Government	3,082,015	2,836,158	245,857
Health:			
Personal Services	1,406,230	1,200,306	205,924
Materials and Supplies	36,200	38,573	(2,373)
Contractual Services	640,700	494,511	146,189
Intergovernmental Transfers (Note 12)	114,835,114	92,581,241	22,253,873
County Services	8,531,039	7,572,175	958,864
Other	8,850	3,215	5,635
Total Health	125,458,133	101,890,021	23,568,112
Capital Outlay	162,000	100,628	61,372
Total Current Expenditures	128,702,148	104,826,807	23,875,341
Excess of Revenues Over (Under) Expenditures	(9,787,659)	17,545,160	27,332,819
Other Financing Sources (Uses)-			
Transfers In	600,000	661,000	61,000
Total Other Financing Sources	600,000	661,000	61,000
Net Change in Fund Balance	(9,187,659)	18,206,160	27,393,819
Fund Balance, Beginning of Year		45,696,327	
FUND BALANCE, END OF YEAR		63,902,487	

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

Exhibit 6

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, 2020

	ORIGINAL AND FINAL BUDGET	ACTUAL GAAP BASIS	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues -			
Investment Income	668,893	726,770	57,877
Net Change in Fund Balance	668,893	726,770	57,877
Fund Balance, Beginning of Year		55,617,922	
FUND BALANCE, END OF YEAR		56,344,692	

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

Exhibit 7

NUECES COUNTY HOSPITAL DISTRICT

(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

TOBACCO SETTLEMENT FUND

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

YEAR ENDED SEPTEMBER 30, 2020

	ORIGINAL AND FINAL BUDGET	ACTUAL GAAP BASIS	VARIANCE FAVORABLE (UNFAVORABLE)
Revenues:			
Tobacco Settlement	600,000	661,192	61,192
Investment Income	--	158	158
Total Revenues	600,000	661,350	61,350
Other Financing Uses -			
Transfers Out	(600,000)	(661,000)	(61,000)
Total Other Financing Uses	(600,000)	(661,000)	(61,000)
Net Change in Fund Balance	--	350	350
Fund Balance, Beginning of Year		488	
FUND BALANCE, END OF YEAR		838	

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

Exhibit 8-A

NUECES COUNTY HOSPITAL DISTRICT

(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

FIDUCIARY FUNDS

STATEMENT OF NET POSITION

SEPTEMBER 30, 2020

	HEALTH BENEFIT PLAN AND TRUST FUND
ASSETS	
Cash and Cash Equivalents (Note 4)	117,584
Accrued Interest	2
Total Assets	117,586
LIABILITIES	
Due to General Fund	2,495
NET POSITION	
Held in Trust for Employee Health Benefits	115,091

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

Exhibit 8-B

NUECES COUNTY HOSPITAL DISTRICT

(A COMPONENT UNIT OF NUECES COUNTY, TEXAS)

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN NET POSITION

YEAR ENDED SEPTEMBER 30, 2020

	HEALTH BENEFIT PLAN AND TRUST FUND
ADDITIONS	
Interest	1,073
DEDUCTIONS	
Administration and General	1,470
Employee Benefits	21,704
Total Deductions	23,174
Net Decrease	(22,101)
Net Position, Beginning of Year	137,192
NET POSITION, END OF YEAR	115,091

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

Note 1 – REPORTING ENTITY

Nueces County Hospital District (the District), a discretely presented component unit of Nueces County, Texas (the County), was made available by an Act of the Legislature of the State of Texas and subsequently approved by the voters 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.

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 CHRISTUS Spohn Health System ("Spohn") as part of the Spohn Membership Agreement between the two parties, Spohn does not qualify as a component unit. The District does not approve the budget of Spohn, nor have any rights to surpluses of Spohn. However, Spohn shares certain revenues with the District pursuant to the terms of the Agreement.

Additionally, the District serves as the Region 4 Anchor and funds voluntary intergovernmental transfers (IGTs) for certain healthcare providers under provisions of the Texas Health and Human Services Commission's (HHSC) Medicaid Payment Programs. This allows Spohn and certain other Region 4 healthcare providers to participate in supplemental Medicaid Payment Programs.

Formation and Background

The District is a tax-supported governmental entity authorized by the Constitution of the State of Texas, the creation of which was approved by the voters of Nueces County in 1967. Pursuant to Chapter 281 of the Texas Health and Safety Code, the District assumed full responsibility for furnishing medical and hospital care for indigent and needy persons residing in the District beginning on the date on which taxes were collected for the District. The Commissioners Court is authorized to levy hospital district taxes on property located within the District whose boundaries are coterminous with the County. Chapter 281 allows the District to use funds from any source to fund indigent health care and intergovernmental transfers from the District to the state for use as the nonfederal share of Medicaid supplemental payment programs or waiver program payments.

The District is governed by a Board of Managers, whose members are appointed by the Commissioners Court. The Commissioners Court has final approval of the District's operating budget and tax rate. The Commissioners Court has the authority to levy on all property subject to District taxation a tax not to exceed seventy-five cents ($.75) on each $100 valuation of all taxable property within the District.

Note 1 – REPORTING ENTITY

1996 Transaction

Historically, the Nueces County Hospital District (the "District") owned and operated Memorial Medical Center ("Memorial"). Memorial served as the safety-net hospital in Nueces County providing indigent care services to the needy, consistent with the District's role as a Chapter 281 hospital district. In 1996, through a series of agreements (the "1996 Transaction") which include a Master Agreement, Lease Agreement, and Indigent Care Agreement, (collectively, the "1996 Transaction Agreements"), the District leased Memorial to Spohn and Spohn assumed the responsibility to operate Memorial in Nueces County, with obligations for Spohn to provide indigent care and for the District to utilize its ad valorem tax revenues to fund the provision of indigent care by Spohn in Nueces County.

Renegotiation of 1996 Transaction

During the 2011 – 2012 timeframe, Spohn started facing significant capital costs due to the deteriorating condition of its hospital facilities in Corpus Christi, particularly the Memorial hospital facility. Spohn's options to address these capital needs were somewhat limited by the 1996 Transaction Agreements, through which Spohn assumed a 30-year responsibility for the maintenance and operations of the Memorial facility. In addition to the lease rate for the Memorial facility and the District's other assets and Spohn's obligation to maintain the facilities in a commercially reasonable manner, Spohn had also agreed to invest at least $6 million per year in capital improvements and equipment at the Memorial campus, the neighborhood clinics, and the physician office buildings. In 2011, Spohn began the process of evaluating a transformative capital project in the Nueces County market, with the goal to shift the delivery of care towards a focus on more appropriate outpatient care venues and better coordination across the care continuum, rather than simply retrofitting the existing hospital inpatient infrastructure. In order for the parties to make significant changes to the infrastructure, Spohn desired more flexibility than what was available under the 1996 Transaction documents; in particular, it desired to align the interests of the District and Spohn more closely and to relax or remove its contractual commitment to maintain the existing facilities, including the Memorial facility owned by the District. CHRISTUS Health, Spohn's parent organization, ultimately approved a $325 million capital investment in 2013 in the Corpus Christi market, after Spohn's transition to the co-membership/ownership role with the District discussed below.

Recognizing the constraints placed on their strategic planning efforts due to the historical structure, the parties invoked the process outlined in the 1996 Transaction that allowed for the District and Spohn to renegotiate the agreements between the parties in the event there was an adverse material change in government reimbursement. The parties therefore included in the 1996 Transaction documents a right to renegotiate changes in their relationship in the event there was a substantial reduction in government program funding for Spohn. On invoking this process to assess the risk of adverse material change in government reimbursement to Spohn, the parties also identified opportunities to improve the delivery of care in the Coastal Bend communities.

Note 1 – REPORTING ENTITY

2012 Spohn Membership Agreement

The parties structured the Spohn Membership Agreement ("2012 Membership Agreement") in 2012 to further support their efforts to more closely and comprehensively collaborate and align the operations of the District and Spohn as a governmental and public provider. Effective September 30, 2012, the parties entered into a Memorandum of Understanding ("MOU") to effectuate termination of the 1996 Transaction Agreements. Pursuant to the terms of the MOU, the parties agreed to terminate the 1996 Transaction Agreements. The parties also agreed in the MOU to the reinstatement of the 1996 Transaction Agreements to be effective upon the termination of the 2012 Membership Agreement, subject to certain amendments to the 1996 Transaction Agreements (including to the Lease Agreement) which are attached to the MOU. At the same time, the parties entered into the 2012 Membership Agreement, effective October 1, 2012, pursuant to which the District became a co-member in Spohn along with CHRISTUS Health, with the rights, privileges, obligations, and duties attendant to such role. The parties intended that Spohn would continue to serve as the public safety-net hospital in Corpus Christi. In order to reflect the District as a co-member in Spohn, the parties revised Spohn's corporate documents, and submitted the appropriate enrollment change documents to the Medicare fiscal intermediary and the State related to its Medicare and Medicaid provider agreements.

The District also provided Spohn the right to continue to use and operate the Memorial facilities and granted Spohn the right to make material alterations to the Memorial facilities upon reasonable review of the District. Spohn continues to have the right to use Memorial, the Memorial campus, and other facilities without a rental obligation. The Agreement carries over most of the other duties and responsibilities from the Lease. The District also agreed to reduce Spohn's obligation to make $6 million in capital expenditures per year for Memorial and the District's other facilities in the event such material alterations were made.

The parties agreed that each co-member of Spohn was entitled to an allocated portion of the funds as part of their co-membership/ownership role, commensurate with their liability for Spohn's operating losses. Specifically, under the 2012 Membership Agreement, the co-members agreed to remit to Spohn their pro rata share of any operating loss deficits within a specified timeframe. Upon implementation of the 2012 Membership Agreement, CHRISTUS Health and the District were co-members in the Spohn corporate entity. CHRISTUS Health continued to receive its management fees and other revenue from Spohn's operations in return for the support services it furnished to Spohn. In exchange for the District's support of Spohn and its assumption of economic risk and the various tangible and intangible economic and other benefits the District granted to Spohn, the District was entitled to an allocated portion of the funds Spohn had available for distribution to its co-members—i.e., a share of the Spohn nonfederal net patient revenue negotiated annually based on Spohn's operating budget and projected operating margin for the upcoming year.

2015 Transaction

In September 2012, Spohn issued a Notice of Material Alteration to the District in accordance with the Membership Agreement requesting to, among other things, demolish the MMC hospital building, construct a 40,000 square foot outpatient clinic on the MMC campus to be known as the Dr. Hector P. Garcia—Memorial Family Health Center ("Family Health Center"), and relocation of Memorial's inpatient beds and trauma services to Spohn's Shoreline hospital following the redesign of Shoreline. The parties then entered into a binding Letter of Intent. Under the Letter of Intent, the District approved Spohn's material alteration plans as described in the Notice. The parties also agreed to amend the Membership Agreement and MOU to make the following changes:

- Authorize Spohn to construct the Family Health Center on the MMC campus, transition MMC inpatient beds, emergency room, and trauma services to Spohn's Shoreline hospital, and subsequently demolish the MMC hospital facility.
- Require Spohn to continue to (1) provide inpatient and outpatient indigent care services to Nueces Aid enrollees at the same levels as during prior periods through 2036; (2) make certain outpatient services available to Nueces Aid enrollees at the Family Health Center; (3) ensure appropriate availability of inpatient and outpatient psychiatric and behavioral health services to indigents at a location in Corpus Christi, Texas and analyze the most appropriate facility for such services in conjunction with House Bill 3793, 83rd Legislature, Regular Session, 2013 Plan for the Appropriate and Timely Provision of Mental Health Services, (4) ensure the community has constant access to an emergency department equipped to provide Level II trauma services at Shoreline prior to the demolition of the MMC hospital facility; (5) maintain at least two graduate medical education programs with comprehensive resident training available in both programs; and (6) make adequate and appropriately furnished and equipped space available at the Family Health Center for the District's enrollment officers and receptionist.
- Require Spohn to renovate Spohn's Shoreline hospital to enable it to have a sufficient number of inpatient beds, achieve Level II Trauma Center designation, and address emergency department capacity issues prior to the demolition of the MMC hospital facility.
- Following the termination of the Membership Agreement, (1) obligate Spohn to continue to provide lease payments to the District as previously required prior to the termination of the Lease and to pay $1 million per year in lease payments from 2026 through 2036 and (2) reduce the District's payments to Spohn for providing indigent care services to Nueces Aid enrollees with no inflator.
- Gradually reset Spohn's obligations to make capital expenditures related to the MMC campus but requires Spohn to place in escrow the difference between the amounts it would have been obligated to make for capital expenditures and the reduced capital expenditure obligations until Spohn completes various of its obligations under the Letter of Intent.

Following the parties' entry into the Letter of Intent, the District's Board of Managers issued a resolution formally authorizing the closure and demolition of the MMC hospital facility.

Effective November 2015, the Parties entered into an Amended and Restated Membership Agreement and Amended and Restated MOU (which include amendments to the suspended Master Agreement, Lease, and Revised and Restated Indigent Care Agreement) to memorialize the parties' various agreements under the Letter of Intent. The parties also entered into an Escrow Agreement with Bank of America serving as the escrow agent to maintain the funds that Spohn will deposit into escrow to secure its commitments under the Amended and Restated Membership Agreement and Amended and Restated MOU.

Memorial Campus

The District is considering various health care related options for future use of the Memorial campus following demolition. The Memorial Hospital Building continues to be utilized to provide inpatient psychiatric services for Spohn. Governmental Accounting Standards Board No. 42 *Accounting and Financial Reporting for Impairment of Capital Assets* requires that assets no longer used by the government be reported at the lower of carrying value or fair value. Management has determined that the carrying value of $259,170 is lower than fair value. Therefore, an impairment adjustment is not required.

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 Position and Statement of Activities Column. The government-wide statements focus more on the substantiality of the District as an entity and the change in aggregate financial position resulting from the activities of the fiscal period.

The fund financial statements emphasis is on the major funds which for the District are the general fund and the indigent care fund. There is one non-major fund: The Tobacco Settlement Fund.

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 a 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 position 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, fund equity, revenues and expenditures/expenses. The various funds are reported by generic classification within the financial statements. The criteria used to determine if a governmental fund should be reported as a major fund are as follows: the total assets, liabilities, revenues or expenditures of that governmental fund are at least 10% of the corresponding element total for all governmental funds. The special revenue Tobacco Settlement Fund is reported as a major fund because it is the only other fund. The District reports the following major funds:

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

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

Tobacco Settlement Fund – Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally or contractually committed to expenditures 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, employee reimbursements for out-of-pocket health care costs. The District is not under an obligation to maintain the trust principal.

C. Basis of Accounting

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

Accrual

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

Modified Accrual

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

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

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

Note 2 – SIGNIFICANT ACCOUNTING POLICIES – (Continuation)

D. Budgets and Budgetary Accounting

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

E. Cash and Cash Equivalents

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

F. Investments

Statutes give the District the authority to invest its funds in obligations of the United States; direct obligations of the state of Texas; other obligations guaranteed or insured by the state of Texas or the United States; obligations of states, agencies, counties, or cities of any state that have been rated not less than one or its equivalent by a nationally recognized investment firm; certificates of deposit guaranteed insured or secured by approved obligations; certain commercial paper; fully collateralized repurchase agreements, and Securities & Exchange Commission-registered, no-load money market mutual funds whose assets consist exclusively of approved obligations. Investments are recorded at fair value, except for investments pools which are reported at amortized costs and included in cash and cash equivalents. See Note 5 for discussion on fair value measurement.

G. Receivables and Payables

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

H. Capital Assets

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

ASSETS	LIFE IN YEARS
Building and Improvements	20-40
Funiture and Equipment	10
Computer Equipment	5

Note 2 – SIGNIFICANT ACCOUNTING POLICIES – (Continuation)

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 and sick leave 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. The cost of paid time off and sick leave is recognized when earned by employees.

J. Employee Benefit Plans

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

K. Fund Balance Classifications

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

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

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

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

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

Note 3 - SPOHN MEMBERSHIP AGREEMENT

The District and Spohn entered into a Spohn Membership Agreement to establish a structure for the joint membership of Spohn with the District effective October 1, 2012, as stated in Note 1. The 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 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 (MMC) facilities and satellite clinics during the term of the Agreement in a manner consistent with the substantive and maintenance provisions in the former Lease Agreement, without payment of rent by Spohn to the District for such use, and (3) a Spohn net patient revenue allocation and sharing arrangement between Spohn and the District, the amount of which is determined each year prior to October 1.

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

The Spohn Membership Agreement was amended and restated effective November 18, 2015 permitting Spohn to renovate and transform the MMC campus and improve facilities at its Christus Spohn Hospital Shoreline campus. Spohn has constructed a new Family Health Center on an unoccupied portion of the MMC campus, expanded its Shoreline campus Emergency Department, relocated the MMC trauma center to the Shoreline campus, and added in-patient bed capacity to that campus. With the addition, relocation, and expansions completed, the community has access to the health care services previously available at MMC and Spohn will be allowed to cease operation of and demolish MMC.

Annual Member Revenue Allocation

Each year under the Spohn Membership Agreement, Spohn and the District confer regarding the support necessary for the operations of Spohn over the ensuing fiscal year starting October 1. Spohn prepares a budget that contemplates any modifications or additions in cost to provide healthcare services at MMC and the Satellite Clinics. Upon review of the Spohn budget, economic resources of Spohn and the Members and other factors, Spohn and the District agree on a "Specified Annual Percentage", (as defined in the agreement), of Spohn's net patient revenue that the District will receive. Based on this year's estimate the District budgeted $84,500,000 and received $86,727,740 in member revenues for the year ended September 30, 2020.

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

Note 4 – CASH AND INVESTMENTS

The District's investment policies and types of investments are governed by the Texas Public Funds Investment Act ("PFIA"). The District's management believes that it has complied with the requirements of the PFIA and the District's investment policies. At September 30, 2020, the District segmented time distribution analysis of the portfolio by market sector is as follows, including the Health Benefit Trust:

		INVESTMENT MATURITIES IN YEARS	
	TOTAL	LESS THAN ONE YEAR	ONE TO THREE YEARS
Cash and Equivalents:			
Collateralized Bank Accounts	1,147,218	1,147,218	--
Money Market Mutual Funds - Fiduciary Funds	117,584	117,584	--
Petty Cash	150	150	--
AAA-Rate Local Government Investment Pools:			
Texpool	72,927,315	72,927,315	--
Logic	23,736,581	23,736,581	--
TexStar	11,729,878	11,729,878	--
Total Cash and Equivalents	109,658,726	109,658,726	--
Investments At Fair Value:			
Federal National Mortgage Association	11,996,132	--	11,996,132
Municipal Bond	1,000,500	--	1,000,500
Total Investments	12,996,632	--	12,996,632
TOTAL VALUE	122,655,358	109,658,726	12,996,632
% of Total Portfolio	100%	89.40%	10.60%

The District's policy is to report money market investments and investment pools at amortized cost. 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 and money market mutual funds. All investments are rated AAA, or equivalent, by at least one nationally recognized rating agency. Investments are made primarily in obligations of the U.S. Government, its agencies or instrumentalities. State law and the District's adopted Investment Policy require 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 require a procedure to verify continued FDIC insurance weekly.

Note 4 – CASH AND INVESTMENTS – (Continuation)

State law and the District's adopted Investment Policy restrict 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). Depository 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.

Brokered CD's must be FDIC insured and delivered versus payment to the District's depository. Maximum maturity is one year and FDIC insurance must be verified before purchase. By Policy any change in FDIC status of the banks requires a review to assure FDIC status has not changed and immediate liquidation in the case of a merger or acquisition.

By policy and state law repurchase agreements are limited to those with defined termination dates executed with a Texas bank or a primary dealer (as defined by the Federal Reserve). The agreements require an industry standard, written master repurchase agreement and a minimum 102% margin on collateral as well as delivery versus payment settlement and independent safekeeping. Repurchase agreements may not exceed one year to stated maturity. Reverse repurchase agreements may not exceed 90 days and must be matched with reinvestment maturities.

By policy and state law commercial paper must be rated not less than A1/P1 or equivalent by at least two Nationally Recognized Statistical Rating Organizations (NRSRO) or by one NRSRO if fully secured by an irrevocable letter of credit issued by a bank organized and existing under US law or the law of a state of the US. Commercial paper is restricted to a stated maturity of 270 days or less. The District's adopted Investment Policy restricts investment in money market mutual funds to those rated AAA and registered with the SEC. Each fund must strive to maintain a $1 net asset value.

Local government investment pools in Texas are required to be rated AAA, or equivalent, by at least one nationally recognized rating agency. The Policy further restricts investments to AAA-rated local government investment pools which strive to maintain a $1 net asset value.

As of September 30, 2020, the cash and investments contained:

- FDIC insured or fully collateralized bank deposits representing 0.94% of the total portfolio,
- Investment in three local government investment pools representing 88.37% of the total portfolio,
- AAA-rated money market funds striving to maintain a $1 net asset value represented 0.10% of the total portfolio, and
- US Government agency securities representing 9.78% of the total portfolio.
- Municipal Bonds representing .81% of the total portfolio.

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 and at least 33% of the District's investments are designed to be in obligations of the US Government. As of September 30, 2020 the portfolio met its diversification requirements.

Note 4 – CASH AND INVESTMENTS – (Continuation)

Interest Rate Risk

In order to limit interest and market rate risk from changes in interest rates, the District's adopted Investment Policy sets a maximum stated maturity date of three years and at least 33% of the District's investments shall be obligations of the U.S. Government. To ensure liquidity a minimum of 10% shall be liquid. The maximum weighted average maturity (WAM) is six (6) months. At the time any investment is placed, the overall compliance with the Investment Policy is verified. A segmented time distribution analysis of the portfolio is shown on page 42. As of September 30, 2020, holdings in the portfolio with stated maturity dates beyond one year representing 10.60% of the total portfolio all of which were US agencies and a municipal bond.

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. All pledged securities are to be transferred delivery versus payment and held by an independent party approved by the District and held in the District's name by an independent custodian. 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% of market value and collateral terms to be detailed in executed 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, 2020, the portfolio contained no certificates of deposit and no repurchase agreements. The portfolio contained 0.94% in fully insured and collateralized demand deposit accounts. All pledged bank collateral for demand deposits was held by an independent institution outside the bank's holding company.

Note 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS

GASB 72, *Fair Value Measurement and Application*, for financial reporting purposes categorizes financial instruments within three different levels of risk dependent upon the measure of their fair value and pricing as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the government can access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the asset or liability.

Because the investments are restricted by Policy and state law to active secondary market, the market approach is being used for valuation. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities.

Note 5 – FAIR VALUE OF FINANCIAL INSTRUMENTS – (Continuation)

The fair market prices used for these fair market valuations of the Districts portfolio are all Level 1 and represent unadjusted quoted prices in active markets for identical assets and liabilities that have been accessed at the measurement date.

The investments held by the District as of September 30, 2020 are U.S. Government Agency Bonds and a Municipal Bond.

Note 6 – PROPERTY TAXES

The Commissioners' Court of Nueces County levies for the District, an ad valorem 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, 2019 upon which the levy for the 2020 fiscal year was based was $32,185,218,280.

The tax rate assessed for the year ended September 30, 2020 to finance general fund operations and the limited tax refunding bonds was $0.112421 per $100 valuation. Current tax collections for the year ended September 30, 2020 were 95% of the year-end adjusted tax.

Note 7 – DELINQUENT TAXES RECEIVABLE

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

	BALANCE OCTOBER 1, 2019	CURRENT YEAR LEVY	TOTAL COLLECTIONS	ADJUSTMENTS	BALANCE SEPTEMBER 30, 2020
Delinquent Taxes Receivable	2,119,558	36,214,798	34,998,211	(490,151)	2,845,994
Allowance for Uncollectible Taxes	(1,066,807)	--	--	(19,637)	(1,086,444)
NET DELINQUENT TAXES RECEIVABLE	1,052,751	36,214,798	34,998,211	(509,788)	1,759,550

Note 8 – CAPITAL ASSETS

A summary of changes in the capital assets follows:

	BALANCE OCTOBER 1, 2019	ADDITIONS	REDUCTIONS	BALANCE SEPTEMBER 30 2020
Capital Assets, Not Being Depreciated-				
Land	3,076,926	--	--	3,076,926
Capital Assets, Being Depreciated-				
Equipment	1,329,240	51,522	24,746	1,356,016
Buildings	27,710,427	49,107	--	27,759,534
Total Capital Assets, Being Depreciated	29,039,667	100,629	24,746	29,115,550
Less Accumulated Depreciation for				
Equipment	1,214,060	32,530	24,746	1,221,844
Buildings	23,874,769	308,039	--	24,182,808
Total Accumulated Depreciation	25,088,829	340,569	24,746	25,404,652
Total Capital Assets, Being Depreciated Net	3,950,838	(239,940)	--	3,710,898
TOTAL CAPITAL ASSETS, NET	7,027,764	(239,940)	--	6,787,824

Note 9 – UNEARNED REVENUES

Unearned Revenue balances at September 30, 2020 consist of property taxes of $1,759,550.

Note 10 – LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions of the District for the year ended September 30, 2020:

	BALANCE OCTOBER 1, 2019	ADDITIONS	REDUCTIONS	BALANCE SEPTEMBER 30 2020
Other Liabilities-				
Accrued Paid Time Off	31,634	149,842	140,122	41,354
TOTAL	31,634	149,842	140,122	41,354

Note 11 - OPERATING LEASES

The District leases office space for its administrative offices under an operating lease expiring in May 31, 2023. Rental payments under all operating leases amounted to $115,627 during the year ended September 30, 2020. As of September 30, 2020, the District had the following minimum commitments under a non-cancelable lease for the next five years:

Year Ended September 30, :	
2021	114,602
2022	116,442
2023	78,446
TOTAL	309,490

Note 12- INTERGOVERNMENTAL TRANSFERS (IGTs)

The District participates in the State sponsored Medicaid payment program serving as the Region 4 Anchor. The District provides IGT's for certain healthcare providers in Region 4 so they can participate in Medicaid payment programs. The District budgets IGTs based on provider's cost estimates. HHSC determines the amount of available State funds available to providers under the various Medicaid payment programs. After these complicated calculations are made by HHSC for all providers in the entire State, then HHSC calculates the amount of IGT needed by each provider and determines timing of the payments to providers. Therefore, of the District's budgeted $114,835,114 for IGT's, the District paid $92,581,241 in IGT's in the current fiscal year.

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

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

Note 13- COMMITTED FUND BALANCE

As shown in the fund financial statements the Board of Managers committed an amount not to exceed $39,918,934 in the District's general fund balance to anticipated additional expenditures for IGTs arising from the District's participation in the Waiver during the year ended September 30, 2020.

Funds included in the Indigent Care Fund of $56,344,692 are committed to be used for indigent health care.

Note 14 – INTERFUND TRANSACTIONS AND BALANCES

Interfund transfers during the year ended September 30, 2020 were as follows:

	TRANSFERS OUT		
	GENERAL FUND	TOBACCO SETTLEMENT FUND	TOTAL
TRANSFERS IN			
General Fund	661,000	(661,000)	--
TOTAL	661,000	(661,000)	--

Note 15 – EMPLOYEE BENEFIT PLANS

Retirement Plan

The District maintains a single-employer, defined contribution retirement plan available to all employees. The Plan is a tax-qualified plan pursuant to section 403(b) of the Internal Revenue Code. All full-time employees are eligible for participation in the plan. As of September 30, 2020, twenty 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, 2020, the District had retirement plan expense of $72,244.

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.

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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 *GOVERNMENT AUDITING STANDARDS*

February 16, 2021

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the governmental activities and each major fund of the Nueces County Hospital District, a component unit of Nueces County, Texas, as of and for the year ended September 30, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents and have issued our report thereon dated February 16, 2021.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Nueces County Hospital District's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances 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.

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

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

Purpose of this Report

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

Collier, Johnson & Woods