

# NUECES COUNTY HOSPITAL DISTRICT

ANNUAL FINANCIAL REPORT

YEAR ENDED SEPTEMBER 30, 2018



NUECES COUNTY HOSPITAL DISTRICT  
AUDITED FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2018

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### INDEPENDENT AUDITOR'S REPORT

February 7, 2019

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, 2018, 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, 2018, 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 7, 2019 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* 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, 2018**

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, 2018 ("Fiscal Year 2018"). 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, 2018, the District's General Fund balance was \$31.374 million compared to \$33.441 million in 2017, a decrease of \$2.067 million or 6.2%. During the fiscal year, the District was able to maintain the General Fund balance as well as transfer \$6 million to the Indigent Care Fund from the General Fund in an effort to rebuild its reserves.

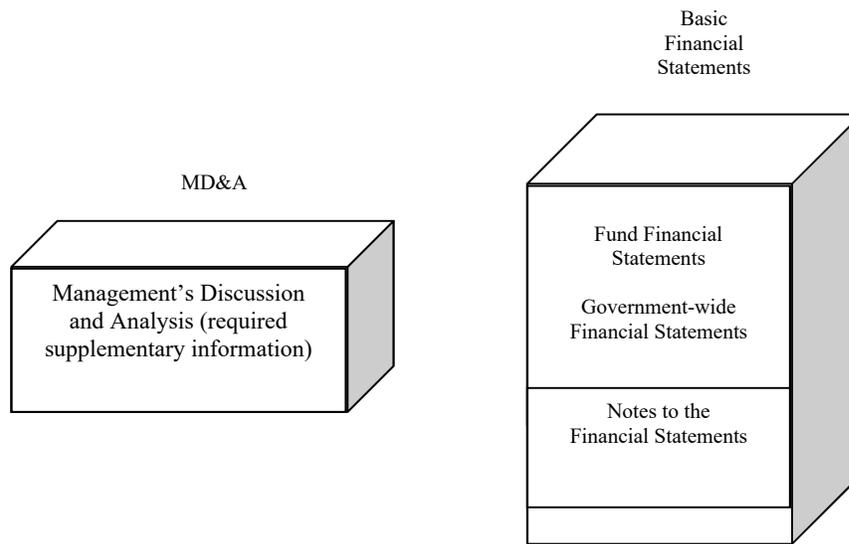
The net position of the District on September 30, 2018 and 2017 was \$88.765 million and \$83.919 million, respectively. Cash, cash equivalents and investments amounted to \$79.561 million and \$76.587 million which represent 88.2% of total assets for September 30, 2018 and 89.6% for 2017, respectively.

The District made 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 funds enable regional health care providers, who provide indigent healthcare consistent with the District's primary mission, to draw additional Medicaid funds.

The District's Board of Managers committed \$13.507 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. Other supplemental financial information includes the budget comparison 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 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.

### **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 Position (Government-Wide)

The District's total Net Position was \$88.765 million and \$83.919 million as of September 30, 2018 and 2017, respectively, an increase of \$4.846 million or 5.8%. Total assets increased \$4.654 million or 5.4% compared to September 30, 2017. The District's total liabilities decreased \$191 thousand or 11.9% compared to September 30, 2017.

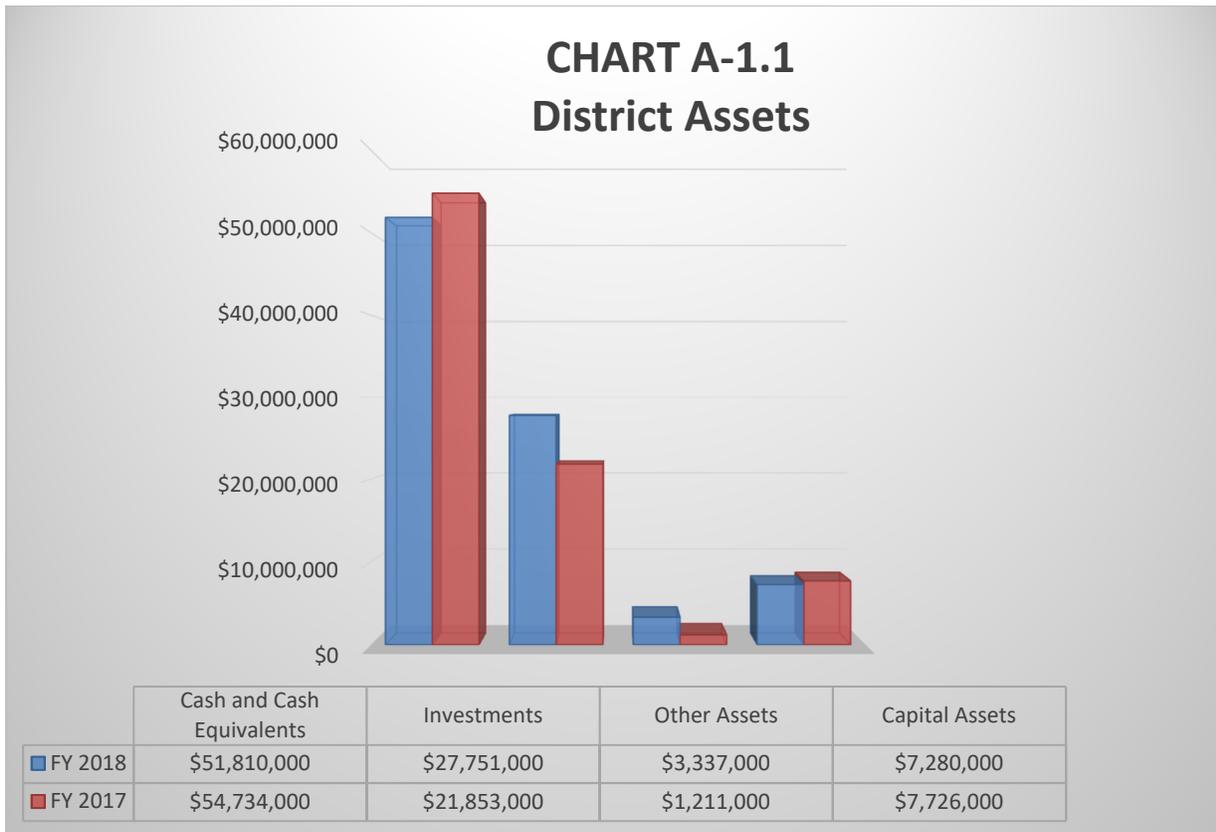
**TABLE A-1**  
**Nueces County Hospital District Net Position**  
**September 30, 2018 and 2017**  
**(In Thousands)**

<b>Assets:</b>	<b><u>2018</u></b>	<b><u>2017</u></b>	<b><u>2018-2017</u></b> <b><u>Variance</u></b>
Cash and Cash Equivalents	\$ 51,810	\$ 54,734	\$ (2,924)
Investments	27,751	21,853	5,898
Other Assets	3,337	1,211	2,126
Capital Assets (Net of Accumulated Depreciation)	<u>7,280</u>	<u>7,726</u>	<u>(446)</u>
<b>Total Assets</b>	<b><u>90,178</u></b>	<b><u>85,524</u></b>	<b><u>4,654</u></b>
<b>Liabilities:</b>			
Accounts Payable	1,183	1,343	(160)
Accrued Payroll and Related Liabilities	201	158	43
Long-Term Liabilities - Accrued Paid Time Off	<u>30</u>	<u>104</u>	<u>(74)</u>
<b>Total Liabilities</b>	<b><u>1,414</u></b>	<b><u>1,605</u></b>	<b><u>(191)</u></b>
<b>Net Position:</b>			
Net Investment in Capital Assets	7,280	7,726	(446)
Unrestricted	<u>81,485</u>	<u>76,193</u>	<u>5,292</u>
<b>Total Net Position</b>	<b><u>\$ 88,765</u></b>	<b><u>\$ 83,919</u></b>	<b><u>\$ 4,846</u></b>

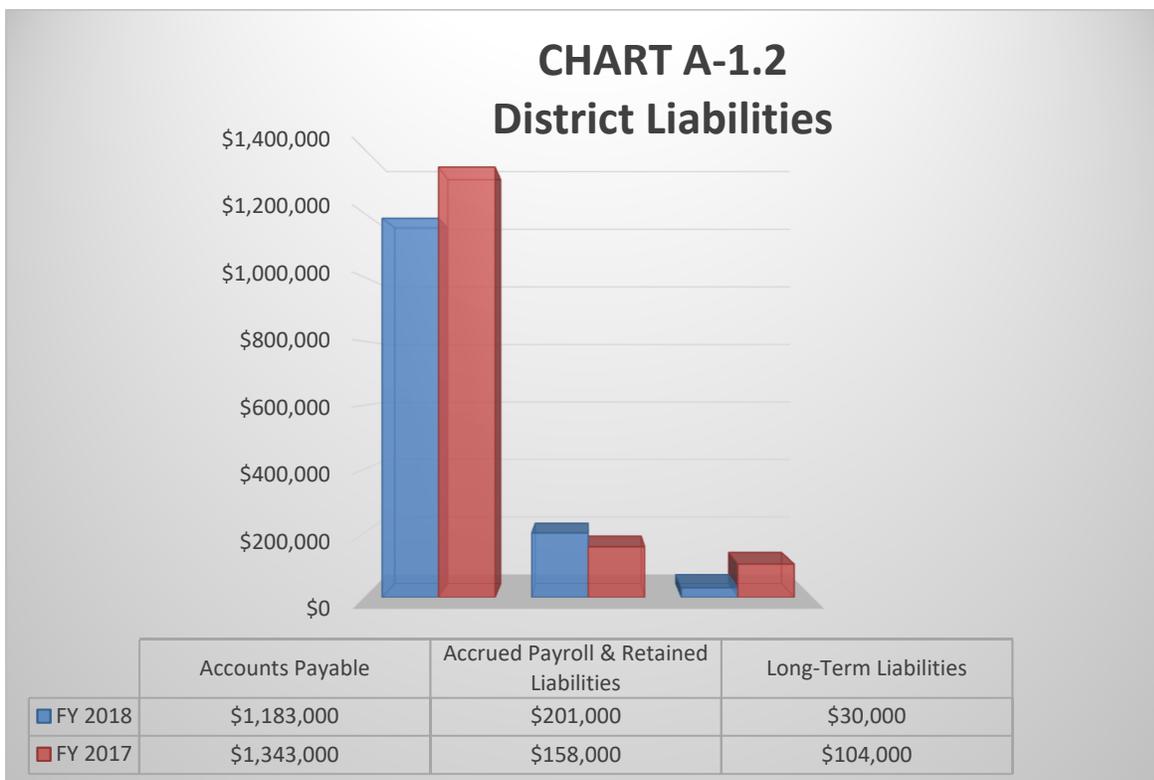
### Financial Analysis

In Fiscal Year 2018, the \$2.974 million or 3.9% net increase in cash and cash equivalents and investments combined is in part the result of an increase in investment income from higher interest rates in the market, and a reimbursement from the State for the District's assistance in operating one of the Medicaid Payment Programs in the region. Other Assets increased \$2.126 million from an increase in certain receivables and prepaid expenditures. The \$446 thousand or 5.8% decrease in Capital Assets (Net of Accumulated Depreciation) mainly relates to depreciation expense and the surrendering of the District's leasehold of its Northside Clinic property. Accounts Payable and Related Liabilities decreased 191 thousand or 11.9% 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.



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

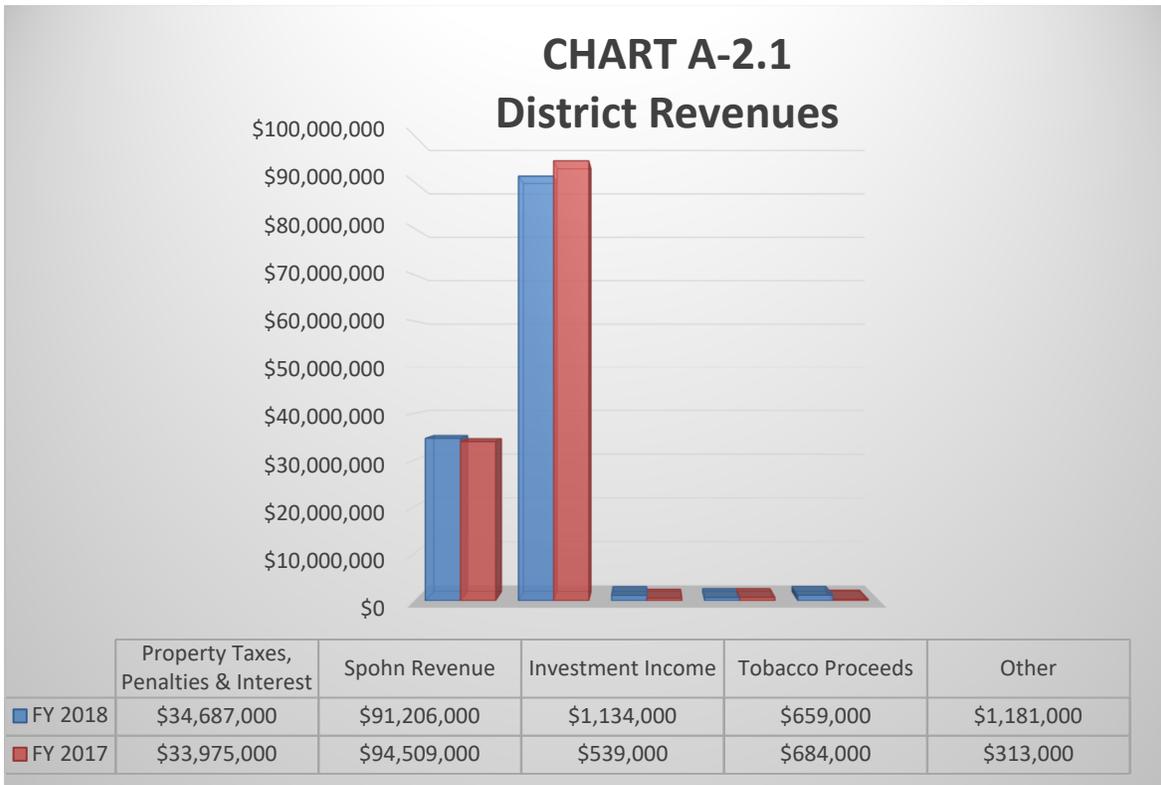


**Statement of Activities (Government-Wide)**

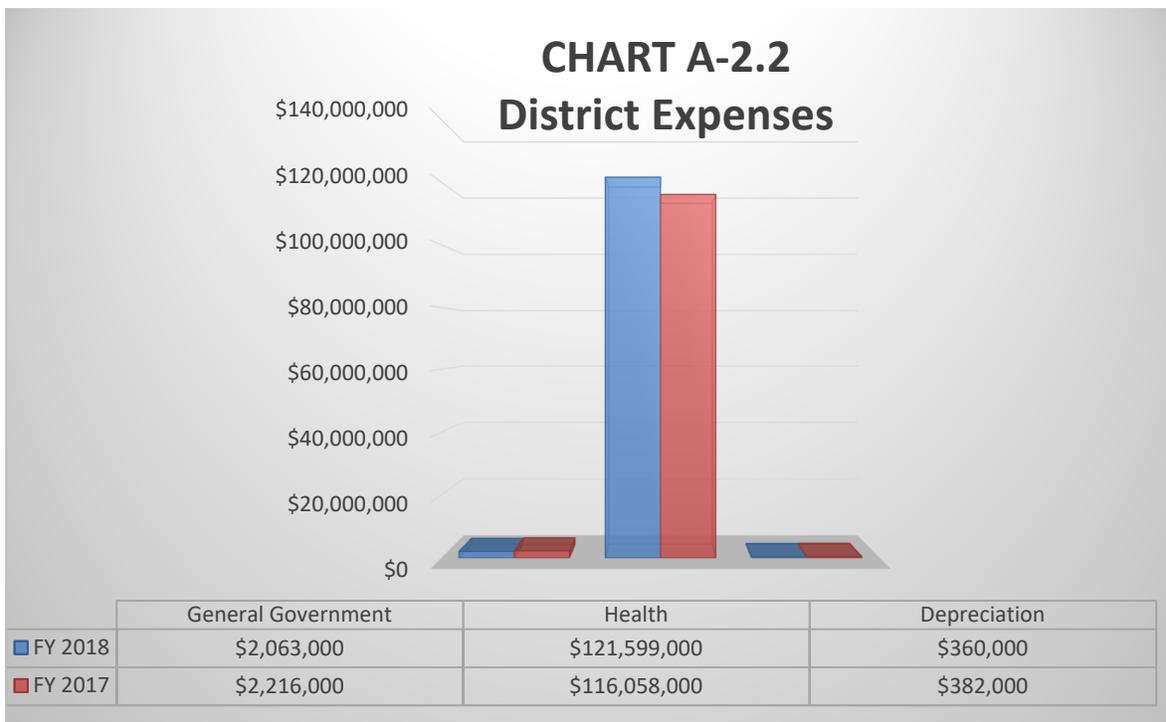
**TABLE A-2**  
**Changes in Nueces County Hospital District Net Position**  
**September 30, 2018 and 2017**  
**(In Thousands)**

<b>Revenues</b>	<u><b>2018</b></u>	<u><b>2017</b></u>	<u><b>2018-2017</b></u> <u><b>Variance</b></u>
Property Taxes and Penalties and Interest	\$ 34,687	\$ 33,975	\$ 712
Spohn Corporate Membership Revenue	91,206	94,509	(3,303)
Investment Income	1,134	539	595
Tobacco Proceeds	659	684	(25)
Other	1,181	313	868
<b>Total Revenues</b>	<u>128,867</u>	<u>130,020</u>	<u>(1,153)</u>
<b>Expenses:</b>			
General Government	2,063	2,216	(153)
Health	121,599	116,058	5,541
Depreciation	360	382	(22)
<b>Total Expenses</b>	<u>124,022</u>	<u>118,656</u>	<u>5,366</u>
Net Change in Net Position	4,845	11,364	(6,519)
Net Position, Beginning of Year	<u>83,919</u>	<u>72,555</u>	<u>--</u>
<b>NET POSITION, END OF YEAR</b>	<u>\$ 88,764</u>	<u>\$ 83,919</u>	<u>\$ (6,519)</u>

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



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



## FINANCIAL ANALYSIS

### Revenues

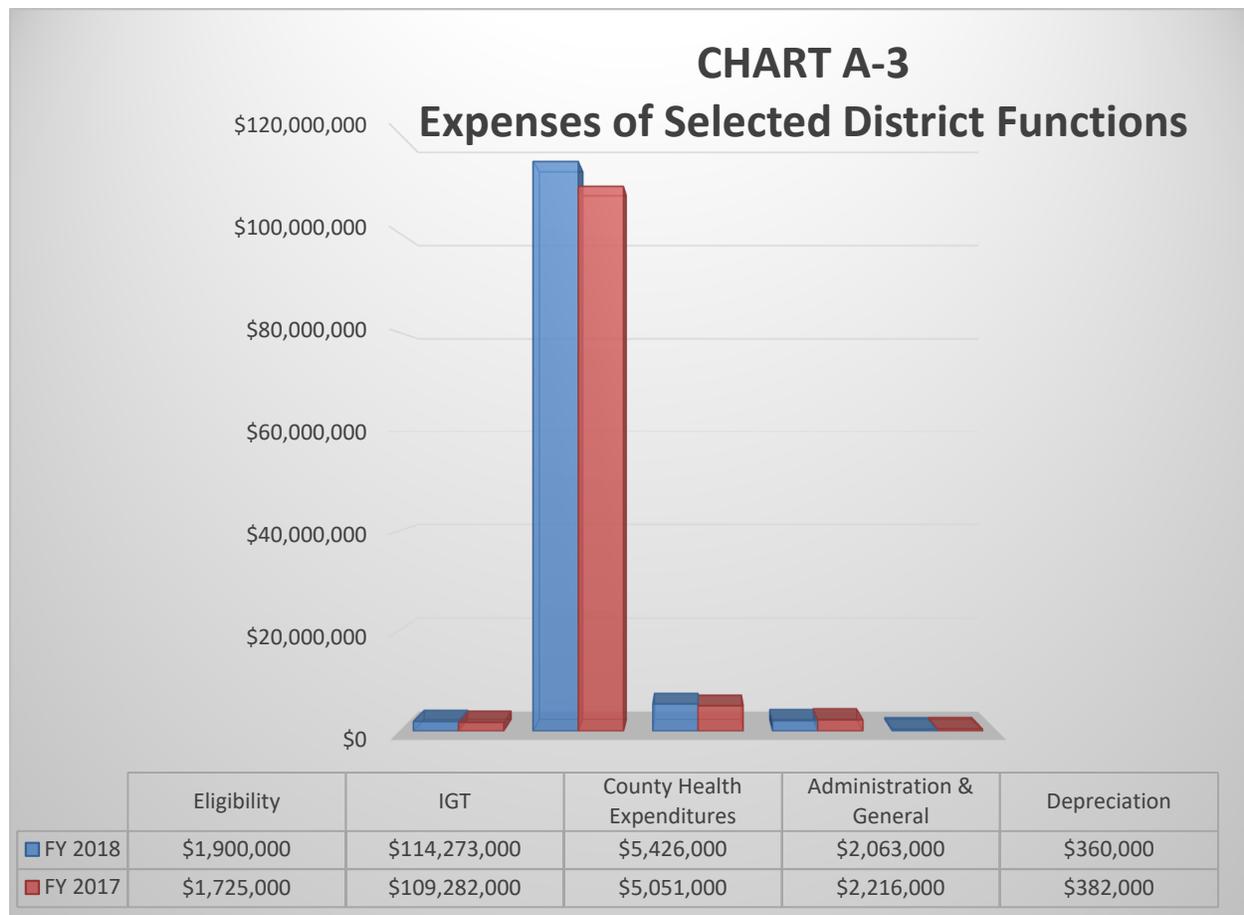
In Fiscal Year 2018, the District's total revenues decreased \$1.153 million or 0.9% compared to the prior fiscal year. There were four principal sources of revenue for the District. The first source of revenue is from ad valorem taxes levied on Nueces County property owners based on assessed valuations. These tax revenues increased by \$712 thousand or 2.1% and accounted for 26.9% of total revenues compared to 26.1% in the prior fiscal year. The District's tax rate during Fiscal Year 2018 decreased to the effective tax rate of \$0.121297 per \$100 valuation. Property valuations increased by \$1.531 billion or 5.6%. The second source is from the Membership Agreement with Spohn which accounted for \$91.206 million and 70.8% of total revenue. This revenue decreased \$3.303 million, or 3.5%, resulting from a lesser 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 increased \$595 thousand or 110.4% due to rising interest rates and a higher amount of invested cash and investments. The fourth source is a Tobacco Settlement distribution from the State of Texas' tobacco litigation which decreased by \$25 thousand or 3.7% 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 and jail health care reimbursements from another governmental entity had an increase of \$868 thousand from prior fiscal year or 277.3%.

**TABLE A-3**  
**Net Cost of Selected District Functions**  
**September 30, 2018 and 2017**  
**(In Thousands)**

	<u>2018</u>	<u>2017</u>	<u>2018-2017</u> <u>Variance</u>
Eligibility	\$ 1,900	\$ 1,725	\$ 175
Intergovernmental Transfers (IGT)	114,273	109,282	4,991
County Healthcare Expenditures	5,426	5,051	375
Administration and General	2,063	2,216	(153)
Depreciation	360	382	(22)
<b>TOTAL</b>	<u>\$ 124,022</u>	<u>\$ 118,656</u>	<u>\$ 5,366</u>

## Expenses

The expenses of the District's functions in Fiscal Year 2018 increased \$5.366 million or 4.5% 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 \$114.273 million in Fiscal Year 2018 and represented 92.1% of all functional expenditures. The second largest amount of cost is \$5.426 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 \$375 thousand or 7.4% in Fiscal Year 2018 compared to the prior fiscal year. County healthcare expenditure costs represented 4.4% of all the District's net costs in Fiscal Year 2018 compared to 4.3% in the prior fiscal year. The two other costs of the District were Administrative and General and Eligibility determination costs. Collectively, these costs increased \$22 thousand or 0.6% during Fiscal Year 2018 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 1.7% of all net costs in Fiscal Year 2018 compared to 1.9% in the prior fiscal year. Eligibility costs represented 1.5% of all net costs in Fiscal Year 2018 as well as 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.



## **General Fund Budgetary Highlights**

Expectations for the District's general fund budget were surpassed during Fiscal Year 2018.

### **Revenues**

Revenues exceeded budget by \$7.146 million. The excess is primarily attributed to revenue resulted from the Membership Agreement, which had an excess of \$6.155 million. The excess 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 2018 budget was developed; due to the difficulty in projecting Spohn's 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 \$581 thousand. Investment income also exceeded budget by \$392 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, exceeded budget by approximately \$18 thousand.

### **Expenditures**

Expenditures were less than budget by \$1.969 million. Of the expenditures less than budget, \$1.542 million was associated with City and County Services primarily due to a new jail diversion program not yet fully implemented. Personal services were less than budget by \$202 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 \$393 thousand mainly due to less utilization of legal fees and consultant fees for one of the Medicaid Payment Programs. The Other category which includes office lease and administrative expenditures ended under budget by \$24 thousand. Finally, Medicaid Payment Programs-related intergovernmental transfers from the District were over budget by \$298 thousand. 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.

**CAPITAL ASSETS**

The District had \$7.280 million in net capital assets at the end of September 30, 2018. The breakdown of the capital assets is as follows:

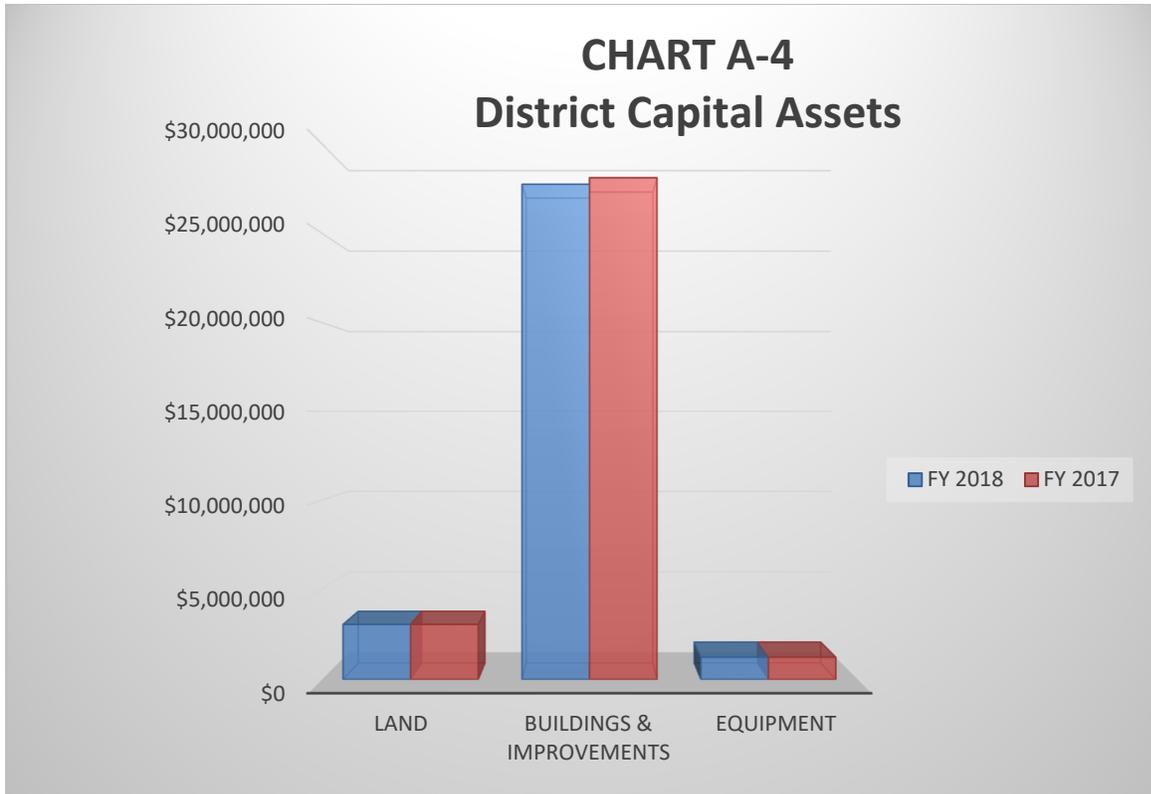
**TABLE A-4**  
**Nueces County Hospital District's Capital Assets**  
**September 30, 2018 and 2017**  
**(In Thousands)**

	<u>2018</u>	<u>2017</u>	<u>2018-2017</u> <u>Variance</u>
Land	\$ 3,077	\$ 3,077	\$ -
Buildings and Improvements	27,710	28,073	(363)
Equipment	<u>1,249</u>	<u>1,247</u>	<u>2</u>
Total	32,036	32,397	(361)
Less: Accumulated Depreciation	<u>24,756</u>	<u>24,672</u>	<u>84</u>
<b>NET CAPITAL ASSETS</b>	<b><u><u>\$ 7,280</u></u></b>	<b><u><u>\$ 7,725</u></u></b>	<b><u><u>\$ (445)</u></u></b>

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 in capital expenditures 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 2018, Buildings and Improvement decreased by \$363 thousand. The District surrendered its leasehold of the Northside Neighbor Care Center property back to the City of Corpus Christi as the clinic operated by Christus Spohn is no longer in operation. 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, 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 and potential block granting and/or reduction of Medicaid funds to the States, each of which may affect the indigent health care program’s enrollment.

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

### ***Budget***

For the District's forthcoming fiscal year ending September 30, 2019 ("Fiscal Year 2019"), the District's Board of Managers and County Commissioners Court approved a District operating budget wherein expenditures exceed revenues by \$1.866 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 \$131.738 million, a 9.9% increase compared to the prior fiscal year; and expenditures are budgeted at \$133.604 million, a 6.3% increase compared to the prior fiscal year.

### ***Tax Rates and Property Valuations***

The property valuations for the District's forthcoming fiscal year ending September 30, 2019 are \$30.184 billion, an increase of 4.6% from the prior year. To offset this increase, County Commissioners Court has decreased the District's tax rate for the Fiscal Year 2019 budget to \$0.117672 per \$100 valuation, which is the effective tax rate. The Fiscal Year 2019 budget estimates include tax revenues of \$33.031 million, a decrease of \$291 thousand or 0.9% over Fiscal Year 2018. Certain prior year refinery related property value lawsuits are still pending and potential refunds have been applied to the tax revenue budget. Although the District realized an increase in property valuations for Fiscal Year 2019, subsequent valuations will likely be less. The District expects minimal tax base expansion and minimal increases in property values in subsequent fiscal periods.

### ***Financial Planning***

The District does not receive State or Federal funding for provision of indigent health care. However, the District expects to continue receiving 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. The District expects that the Membership Agreement's revenue sharing allocation percentage between the District and Spohn will be sufficient in the forthcoming fiscal year to support the District's objectives. Federal regulations governing certain provisions of the Membership Agreement and recent 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](http://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, 2018**

<b>ASSETS</b>	<b><u>GENERAL</u></b>	<b><u>INDIGENT CARE FUND</u></b>	<b><u>TOBACCO SETTLEMENT FUND</u></b>
Cash and Cash Equivalents (Note 4)	31,308,264	20,501,278	350
Investments (Note 4 and Note 5)	--	27,751,465	--
Accrued Interest	3,745	117,129	--
Taxes Receivable Net Of Allowance for Uncollectibles (Note 7):	1,770,562	--	--
Other Receivables	1,313,714	--	--
Prepaid Expenditures	131,467	--	--
Land (Note 8)	--	--	--
Other Capital Assets, net of Accumulated Depreciation (Note 8)	--	--	--
<b>TOTAL ASSETS</b>	<b><u>34,527,752</u></b>	<b><u>48,369,872</u></b>	<b><u>350</u></b>

Exhibit 1

<b>GOVERNMENTAL FUNDS TOTAL</b>	<b>ADJUSTMENTS EXHIBIT 2</b>	<b>STATEMENT OF NET POSITION</b>
51,809,892	--	51,809,892
27,751,465	--	27,751,465
120,874	--	120,874
1,770,562	--	1,770,562
1,313,714	--	1,313,714
131,467	--	131,467
--	3,076,926	3,076,926
--	4,203,231	4,203,231
82,897,974	7,280,157	90,178,131

(Continued)

**NUECES COUNTY HOSPITAL DISTRICT**

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

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

**SEPTEMBER 30, 2018**

	<b><u>GENERAL</u></b>	<b><u>INDIGENT CARE FUND</u></b>	<b><u>TOBACCO SETTLEMENT FUND</u></b>
<b>LIABILITIES</b>			
Accounts Payable	1,182,672	--	--
Accrued Payroll and Related Liabilities	200,610	--	--
Unearned Revenue	1,770,562	--	--
Long-term Liabilities-			
Accrued Paid Time Off (Note 10)	--	--	--
<b>TOTAL LIABILITIES</b>	<b>3,153,844</b>	<b>--</b>	<b>--</b>
 <b>FUND EQUITY/NET POSITION</b>			
Fund Balances:			
Nonspendable	131,467	--	--
Committed to: (Note 13)			
Intergovernmental Transfers	13,506,719	--	--
Indigent Care	--	48,369,872	--
Assigned to County Health Care	--	--	350
Unassigned	17,735,722	--	--
<b>Total Fund Equity</b>	<b>31,373,908</b>	<b>48,369,872</b>	<b>350</b>
 <b>TOTAL LIABILITIES AND FUND EQUITY</b>	 <b>34,527,752</b>	 <b>48,369,872</b>	 <b>350</b>
 Net Position:			
Net Investment in Capital Assets			
Unrestricted			
 <b>TOTAL NET POSITION</b>			

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

Exhibit 1  
Continued

<b>GOVERNMENTAL FUNDS TOTAL</b>	<b>ADJUSTMENTS EXHIBIT 2</b>	<b>STATEMENT OF NET POSITION</b>
1,182,672	--	1,182,672
200,610	--	200,610
1,770,562	(1,770,562)	--
--	30,175	30,175
<u>3,153,844</u>	<u>(1,740,387)</u>	<u>1,413,457</u>
131,467	(131,467)	--
13,506,719	(13,506,719)	--
48,369,872	(48,369,872)	--
350	(350)	--
<u>17,735,722</u>	<u>(17,735,722)</u>	<u>--</u>
<u>79,744,130</u>	<u>(79,744,130)</u>	<u>--</u>
<u><u>82,897,974</u></u>		
	7,280,157	7,280,157
	<u>81,484,517</u>	<u>81,484,517</u>
	<u><u>88,764,674</u></u>	<u><u>88,764,674</u></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 POSITION**

Total Fund Balance - Total Governmental Funds	79,744,130
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 \$32,036,065 and the accumulated depreciation is \$24,755,909 (Note 8)	7,280,157
Taxes receivable, net of allowance is not available to pay for current period expenditures and is, therefore, deferred in the governmental funds. (Note 7)	1,770,562
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)	<u>(30,175)</u>
NET POSITION	<u><u>88,764,674</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, 2018**

	<b><u>GENERAL</u></b>	<b><u>INDIGENT CARE FUND</u></b>	<b><u>TOBACCO SETTLEMENT FUND</u></b>
Revenues:			
Taxes	33,555,951	--	--
Penalties and Interest - Taxes	347,214	--	--
Spohn Corporate Membership Revenue	91,206,130	--	--
Investment Income	631,144	501,037	1,376
Tobacco Settlement	--	--	659,092
Other	1,268,055	--	--
Total Revenue	<u>127,008,494</u>	<u>501,037</u>	<u>660,468</u>
Expenditures/Expenses:			
General Government	2,136,150	--	--
Health	121,599,186	--	--
Depreciation	--	--	--
Capital Outlay	978	--	--
Total Expenditures/Expenses	<u>123,736,314</u>	<u>--</u>	<u>--</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures/Expenses	3,272,180	501,037	660,468
Other Financing Sources (Uses):			
Transfers In (Note 14)	661,000	6,000,000	--
Transfers Out (Note 14)	<u>(6,000,000)</u>	<u>--</u>	<u>(661,000)</u>
Total Other Financing Sources (Uses)	<u>(5,339,000)</u>	<u>6,000,000</u>	<u>(661,000)</u>
Net Change in Fund Balance/Net Position	(2,066,820)	6,501,037	(532)
Fund Balance/Net Position, Beginning of Year	<u>33,440,728</u>	<u>41,868,835</u>	<u>882</u>
FUND BALANCE/NET POSITION, END OF YEAR	<u>31,373,908</u>	<u>48,369,872</u>	<u>350</u>

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

**Exhibit 3**

<b>GOVERNMENTAL FUNDS TOTAL</b>	<b>ADJUSTMENTS EXHIBIT 4</b>	<b>STATEMENT OF ACTIVITIES</b>
33,555,951	784,197	34,340,148
347,214	--	347,214
91,206,130	--	91,206,130
1,133,557	--	1,133,557
659,092	--	659,092
1,268,055	(86,590)	1,181,465
<u>128,169,999</u>	<u>697,607</u>	<u>128,867,606</u>
2,136,150	(73,476)	2,062,674
121,599,186	--	121,599,186
--	360,101	360,101
978	(978)	--
<u>123,736,314</u>	<u>285,647</u>	<u>124,021,961</u>
4,433,685	411,960	4,845,645
6,661,000	(6,661,000)	--
<u>(6,661,000)</u>	<u>6,661,000</u>	<u>--</u>
<u>--</u>	<u>--</u>	<u>--</u>
4,433,685	411,960	4,845,645
<u>75,310,445</u>	<u>8,608,584</u>	<u>83,919,029</u>
<u>79,744,130</u>	<u>9,020,544</u>	<u>88,764,674</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	4,433,685
--	-----------

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 \$360,101 was less than capital outlays of \$978 in the current period and loss on disposal of \$86,590 in the current period. (Note 8)	(445,713)
---	-----------

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.	<u>784,197</u>
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CHANGE IN NET POSITION	<u><u>4,845,645</u></u>
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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, 2018

	<u>ORIGINAL AND FINAL BUDGET</u>	<u>ACTUAL GAAP BASIS</u>	<u>VARIANCE FAVORABLE (UNFAVORABLE)</u>
Revenues:			
Taxes	32,997,393	33,555,951	558,558
Penalties and Interest - Taxes	324,995	347,214	22,219
Spohn Corporate Membership Revenue	85,051,200	91,206,130	6,154,930
Investment Income	238,960	631,144	392,184
Other	1,250,000	1,268,055	18,055
Total Revenues	<u>119,862,548</u>	<u>127,008,494</u>	<u>7,145,946</u>
Expenditures:			
Current:			
General Government			
Administration:			
Personal Services	717,899	681,472	36,427
Materials and Supplies	44,900	32,817	12,083
Contractual Services	1,590,380	1,251,901	338,479
Other	192,460	169,279	23,181
Total Administration	<u>2,545,639</u>	<u>2,135,469</u>	<u>410,170</u>
Facilities Management -			
Materials and Supplies	1,100	681	419
Total General Government	<u>2,546,739</u>	<u>2,136,150</u>	<u>410,589</u>
Health:			
Personal Services	1,443,535	1,278,106	165,429
Materials and Supplies	31,300	27,225	4,075
Contractual Services	643,450	589,119	54,331
Intergovernmental Transfers	113,975,038	114,273,204	(298,166)
County Services	6,968,296	5,426,396	1,541,900
Other	6,250	5,136	1,114
Total Health	<u>123,067,869</u>	<u>121,599,186</u>	<u>1,468,683</u>
Capital Outlay	90,700	978	89,722
Total Current Expenditures	<u>125,705,308</u>	<u>123,736,314</u>	<u>1,968,994</u>
Excess of Revenues Over (Under) Expenditures	(5,842,760)	3,272,180	9,114,940
Other Financing Sources (Uses):			
Transfers In	550,000	661,000	111,000
Transfers Out	(4,460,850)	(6,000,000)	(1,539,150)
Total Other Financing Sources	<u>(3,910,850)</u>	<u>(5,339,000)</u>	<u>(1,428,150)</u>
Net Change in Fund Balance	<u>(9,753,610)</u>	<u>(2,066,820)</u>	<u>7,686,790</u>
Fund Balance, Beginning of Year		<u>33,440,728</u>	
FUND BALANCE, END OF YEAR		<u><u>31,373,908</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)****INDIGENT CARE FUND****STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET (GAAP BASIS) AND ACTUAL****YEAR ENDED SEPTEMBER 30, 2018**

	<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	362,066	501,037	138,971
Other Financing Sources -			
Transfers In	4,460,850	6,000,000	1,539,150
Total Other Financing Sources	<u>4,460,850</u>	<u>6,000,000</u>	<u>1,539,150</u>
Net Change in Fund Balance	<u>4,822,916</u>	6,501,037	<u>1,678,121</u>
Fund Balance, Beginning of Year		<u>41,868,835</u>	
FUND BALANCE, END OF YEAR		<u>48,369,872</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)****TOBACCO SETTLEMENT FUND****STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**  
**BUDGET (GAAP BASIS) AND ACTUAL****YEAR ENDED SEPTEMBER 30, 2018**

	<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	550,000	659,092	109,092
Investment Income	--	1,376	1,376
Total Revenues	<u>550,000</u>	<u>660,468</u>	<u>110,468</u>
Other Financing Uses -			
Transfers Out	<u>(550,000)</u>	<u>(661,000)</u>	<u>(111,000)</u>
Total Other Financing Uses	<u>(550,000)</u>	<u>(661,000)</u>	<u>(111,000)</u>
Net Change in Fund Balance	<u>          --</u>	<u>          (532)</u>	<u>          (532)</u>
Fund Balance, Beginning of Year		<u>          882</u>	
FUND BALANCE, END OF YEAR		<u>          350</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 POSITION**  
**SEPTEMBER 30, 2018**

	<b>HEALTH BENEFIT PLAN AND TRUST FUND</b>
<b>ASSETS</b>	
Cash and Cash Equivalents (Note 4)	173,349
Accrued Interest	282
Total Assets	173,631
 <b>LIABILITIES</b>	
Due to General Fund	10,167
 <b>NET POSITION</b>	
Held in Trust for Employee Health Benefits	163,464

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 NET POSITION**  
**YEAR ENDED SEPTEMBER 30, 2018**

	<b><u>HEALTH BENEFIT PLAN AND TRUST FUND</u></b>
<b>ADDITIONS</b>	
Interest	2,779
<b>DEDUCTIONS</b>	
Administration and General	1,460
Employee Benefits	32,342
Total Deductions	33,802
Net Decrease	(31,023)
Net Position, Beginning of Year	194,487
NET POSITION, END OF YEAR	163,464

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, 2018

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.

Beginning in 1996, Christus Spohn Health System (Spohn) leased the District's hospital, Memorial Medical Center (MMC), and its satellite clinics and was responsible for their operations. The lease called 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. As more fully explained in Note 3, effective October 1, 2012 the District's previous agreement with Spohn was renegotiated and the relationship between the District and Spohn is now governed by the Spohn Membership Agreement described in Note 3. The subsequent changes were effective for the entire fiscal year and the District now contributes the use of MMC and the satellite clinics to Spohn rent free in return for a share of net patient revenue and Spohn is responsible for maintaining MMC.

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 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.

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.

## 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 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 thirty 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.

Note 2 – SIGNIFICANT ACCOUNTING POLICIES – (Continuation)

**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:

<u>ASSETS</u>	<u>LIFE IN YEARS</u>
Building and Improvements	20-40
Furniture 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. 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; Spohn will be permitted to renovate and transform the MMC campus. Spohn has constructed a new Family Health Center on the MMC Campus and is currently expanding its Christus Spohn Hospital Shoreline Emergency Department, trauma center and in-patient bed capacity. When the expansion is complete, ensuring that the community will have access to the health care services currently available, Spohn will be allowed to cease operation 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 \$85,051,200 and received \$91,206,130 in member revenues for the year ended September 30, 2018.

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, 2018, the District segmented time distribution analysis of the portfolio by market sector is as follows, including the Health Benefit Trust:

	TOTAL	INVESTMENT MATURITIES IN YEARS	
		LESS THAN ONE YEAR	ONE TO THREE YEARS
<b>Cash and Equivalents:</b>			
Collateralized Bank Accounts	96,537	96,537	--
Money Market Mutual Funds	173,349	173,349	--
Petty Cash	150	150	--
AAA-Rate Local Government Investment Pools:			
Texpool	41,633,649	41,633,649	--
Logic	17,912	17,912	--
TexStar	10,061,643	10,061,643	--
Total Cash and Equivalents	51,983,240	51,983,240	--
<b>Investments At Fair Value:</b>			
US Treasury Securities	999,275	999,275	--
US Agencies:			
Federal Home Loan Mortgage Corporation	3,956,832	3,956,832	--
Federal Farm Credit Banks	2,980,782	--	2,980,782
Federal National Mortgage Association	19,814,576	17,857,864	1,956,712
Total Investments	27,751,465	22,813,971	4,937,494
<b>TOTAL VALUE</b>	<b>79,734,705</b>	<b>74,797,211</b>	<b>4,937,494</b>
% of Total Portfolio	100%	93.81%	6.19%

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 NRSROs 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 90 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, 2018, the cash and investments contained:

- FDIC insured or fully collateralized bank deposits representing 0.12% of the total portfolio,
- investment in three local government investment pools representing 64.86% of the total portfolio,
- AAA-rated money market funds striving to maintain a \$1 net asset value represented 0.22% of the total portfolio, and
- US Government agency securities representing 33.55% of the total portfolio.
- US Treasury Securities representing 1.25% 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 33% of the District's investments are designed to be in obligations of the US Government. As of September 30, 2018 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 insure liquidity a minimum of 10% shall be liquid. The maximum weighted average maturity (WAM) is twelve (12) 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 38. As of September 30, 2018, holdings in the portfolio with stated maturity dates beyond one year representing 6.19% of the total portfolio all of which were US agencies.

**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, 2018, the portfolio contained no certificates of deposit and no repurchase agreements. The portfolio contained 0.12% 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.

All of the investments held by the District as of September 30, 2018 are U.S. Treasuries or U.S. Government Agency Bonds.

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, 2017 upon which the levy for the 2018 fiscal year was based was \$28,859,146,205.

The tax rate assessed for the year ended September 30, 2018 to finance general fund operations and the limited tax refunding bonds was \$0.121297 per \$100 valuation. Current tax collections for the year ended September 30, 2018 were 94% 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, 2017	CURRENT YEAR LEVY	TOTAL COLLECTIONS	ADJUSTMENTS	BALANCE SEPTEMBER 30, 2018
Delinquent Taxes					
Receivable	2,027,332	35,037,066	34,010,008	(232,716)	2,821,674
Allowance for					
Uncollectible Taxes	(1,040,967)	--	--	(10,145)	(1,051,112)
 NET DELINQUENT TAXES RECEIVABLE	 986,365	 35,037,066	 34,010,008	 (242,861)	 1,770,562

Note 8 – CAPITAL ASSETS

A summary of changes in the capital assets follows:

	BALANCE OCTOBER 1, 2017	ADDITIONS	REDUCTIONS	BALANCE SEPTEMBER 30, 2018
Capital Assets, Not Being Depreciated- Land	3,076,926	--	--	3,076,926
Capital Assets, Being Depreciated- Equipment	1,247,734	978	--	1,248,712
Buildings	28,073,021	--	362,594	27,710,427
Total Capital Assets, Being Depreciated	29,320,755	978	362,594	28,959,139
Less Accumulated Depreciation for Equipment	1,140,524	50,132	--	1,190,656
Buildings	23,531,287	309,969	276,004	23,565,252
Total Accumulated Depreciation	24,671,811	360,101	276,004	24,755,908
Total Capital Assets, Being Depreciated Net	4,648,944	(359,123)	86,590	4,203,231
<b>TOTAL CAPITAL ASSETS, NET</b>	<b>7,725,870</b>	<b>(359,123)</b>	<b>86,590</b>	<b>7,280,157</b>

Note 9 – UNEARNED REVENUES

Unearned Revenue balances at September 30, 2018 consist of property taxes of \$1,770,562.

Note 10 – LONG-TERM OBLIGATIONS

The following is a summary of long-term obligation transactions of the District for the year ended September 30, 2018:

	BALANCE OCTOBER 1, 2017	ADDITIONS	REDUCTIONS	BALANCE SEPTEMBER 30, 2018
Other Liabilities- Accrued Paid Time Off	103,651	274,252	200,776	30,175
<b>TOTAL</b>	<b>103,651</b>	<b>274,252</b>	<b>200,776</b>	<b>30,175</b>

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 \$127,163 during the year ended September 30, 2018. As of September 30, 2018, the District had the following minimum commitments under a non-cancelable lease for the next five years:

Year Ended September 30, :	
2019	110,385
2020	110,998
2021	112,838
2022	114,678
2023	<u>77,270</u>
TOTAL	<u><u>\$526,169</u></u>

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 \$113,975,038 for IGT's, the District paid \$114,273,204 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 \$13,506,719 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, 2018.

Funds included in the Indigent Care Fund of \$48,369,872 are committed to be used for indigent health care.

Note 14 – INTERFUND TRANSACTIONS AND BALANCES

Interfund transfers during the year ended September 30, 2018 were as follows:

	TRANSFERS OUT		
	GENERAL FUND	TOBACCO SETTLEMENT FUND	TOTAL
<u>TRANSFERS IN</u>			
General Fund	--	661,000	661,000
Indigent Care Fund	6,000,000	--	6,000,000
TOTAL	6,000,000	661,000	6,661,000

The transfers to the Indigent Care Fund are done to replenish the fund in anticipation of future indigent care needs.

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, 2018, twenty-one 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, 2018, the District had retirement plan expense of \$78,011.

**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 7, 2019

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, 2018, 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 7, 2019.

### **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 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. 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 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 that might be material weaknesses or, significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting 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*