TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH

Financial Statements as of and for the Year Ended September 30, 2017 and Independent Auditors' Report

MAXWELL LOCKE & RITTER

TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH

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INDEPENDENT AUDITORS' REPORT

To the Board of Managers of
Travis County Healthcare District:

We have audited the accompanying financial statements of the business-type activities and the aggregate discretely presented component units of the Travis County Healthcare District (doing business as and hereinafter referred to as "Central Health"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise Central Health's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinions

In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities and the aggregate discretely presented component units of Central Health, as of September 30, 2017, and the respective changes in financial position and, where applicable, cash flows 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 4 through 11 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the 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 *Government Auditing Standards*, we have also issued our report dated January 26, 2018 on our consideration of Central Health's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Central Health'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 Central Health's internal control over financial reporting and compliance.

Maxwell Locke + Ritter LLP

Austin, Texas
January 26, 2018

This section of the Travis County Healthcare District's (doing business as and hereinafter referred to as "Central Health") financial report presents background information and management's analysis of Central Health's financial results for the fiscal year ended September 30, 2017. Please read this section in conjunction with Central Health's financial statements, which begin on page 12.

Background and Formation

In 2003, the 78th Session of the Texas Legislature amended Chapter 281 of the Texas Health and Safety Code to enable Travis County, Texas ("Travis County") to create a hospital district. For a copy of the code see: www.statutes.legis.state.tx.us/Docs/hs/htm/hs.281.htm. Chapter 281 states that a county may create a countywide hospital district to furnish medical aid and hospital care to indigent and needy persons residing in Travis County. The law stipulates that creation of a hospital district is dependent upon approval by a majority of the qualified voters of the county. On May 15, 2004, Travis County held a countywide election to determine if the voters of the county supported the creation of a hospital district. The proposition passed with 54.73% of the voters (31,920 votes) supporting the creation of the new district, now doing business as Central Health.

During fiscal year 2006, with the approval of the Travis County Commissioners' Court, Central Health changed its name from Travis County Hospital District to Travis County Healthcare District to better reflect the activities of Central Health.

Chapter 281 allows Central Health to create a health maintenance organization to provide or arrange for health care services for the residents of the district. Central Health may also create a charitable organization to facilitate management of a district health care program by providing or arranging health care services, developing resources for health care services, or providing ancillary support services for the district. Under state law, counties are required to provide medical services for indigent residents. In Texas, indigent is defined as an individual with net income at or below 21% of federal poverty income guidelines (Chapter 61 of the Texas Health and Safety Code).

Central Health may levy taxes to finance health care services and the levy may not exceed 25 cents on each $100 of assessed valuation of property taxable by Central Health. The fiscal year 2017 tax levy for Central Health was 11.05 cents per $100 valuation of assessed property.

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

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

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

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

In 2011, Texas received approval from the Centers for Medicare and Medicaid Services (CMS) to operate the Texas Healthcare Transformation and Quality Improvement Program through a waiver of Section 1115 of the Social Security Act (the Waiver). In 2012 Central Health asked Travis County voters for an increased tax rate to provide adequate local matching funds to participate in the Waiver. Following a successful referendum, Central Health increased its property tax rate in fiscal year 2014 by five cents (63 percent) to 12.9 cents per $100 of property assessed value.

Local public funding and matching federal Medicaid dollars serve as the funding sources for the Waiver. It allows Central Health to provide local funds to participants, known as Performing Providers, to perform Delivery System Reform Incentive Payment (DSRIP) projects to enhance and transform elements of the health delivery system for the safety net population. The Community Care Collaborative, a non-profit partnership between Central Health and the Seton Healthcare Family, was formed in 2014 to participate in the Waiver and to better manage the care of the safety-net population through coordinated care and planning. Other Performing Providers of DSRIP projects include the Seton Healthcare Family and St. David's HealthCare.

In May of 2017, Seton Healthcare Family transitioned operations from UMCB to Dell Seton Medical Center at The University of Texas, a new 211-bed teaching hospital and Level 1 trauma center. Built, owned and operated by Seton Healthcare Family, DSMC-UT will serve as the public safety net hospital in Travis County and can accommodate more patients than UMCB and serves as the primary teaching hospital for Dell Medical School at The University of Texas at Austin. The Dell Medical School at The University of Texas at Austin welcomed its inaugural class in 2016 to support the training of local doctors to provide care to those served by Central Health.

With the transition of hospital operations, Central Health has the opportunity to redevelop the 14.3 acre Central Health Brackenridge Campus to provide long-term funding for the mission of Central Health. In 2017, Central Health conducted a competitive RFP process and selected a master developer for the property.

Fiscal Year 2017 Operational Highlights

- Central Health's net position increased $32.5 million, a 15% increase compared to prior year net position.
- During the year, Central Health's total operating revenues were $29.3 million and operating expenses were $170.5 million. Nonoperating revenues, comprised primarily of property tax revenue, were $173.7 million, net of nonoperating expenses.
- To carry out its fiscal responsibility to the taxpayers, Central Health maintains reserve funds to protect its financial security and operational stability in consideration of the risks it faces. The Emergency Reserve is budgeted as a funding source for unanticipated emergencies that arise from unusual circumstances that is maintained at approximately 15% of budgeted ongoing expenses and set annually through adoption of the budget. In addition, Central Health maintains a Contingency Reserve policy to serve as a funding source for one-time expenditures or for ongoing expenditures when needed for cyclical or temporary structural deficits. Central Health also maintains a Capital Reserve established to fund capital assets or projects that will not be funded through the issuance of debt or through a grant.
- Central Health maintained a rating of AAA from Standard & Poor's on its first debt issuance (see Note 8 in this report for more information).
- Provided local matching funds to draw over 91% of the total value of the Community Care Collaborative Delivery Service Reform Incentive Payment projects metrics and outcomes that were reported in fiscal year 2017.
- Completed the Brackenridge Campus Master Plan and selection of a master developer for the Brackenridge Campus.
- Served over 140,000 individuals through MAP, Sliding Fee Scale and CommUnityCare Health Centers.
- Continued in the role of anchor entity for the Medicaid 1115 Waiver Program for Regional Healthcare Partnership Region 7, which consists of Travis County and five other surrounding counties.

Financial Statements

Central Health's financial statements are prepared on the accrual basis of accounting and are accounted for as a single enterprise fund. The financial statements consist of three statements: (1) statement of net position, (2) statement of revenues, expenses, and changes in net position, and (3) statement of cash flows.

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

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

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

Statement of Net Position

The following table summarizes Central Health's assets, liabilities and net position as of September 30, 2017 and 2016:

TABLE 1
Condensed Statement of Net Position

	2017	2016	% Fluctuation
Current assets	$ 99,301,026	$ 59,037,969	68%
Noncurrent assets	63,006,962	55,997,372	13%
Capital assets	119,239,401	123,380,728	(3%)
Total assets	281,547,389	238,416,069	18%
Current liabilities	18,877,915	7,161,225	164%
Noncurrent liabilities	9,572,228	10,654,900	(10%)
Total liabilities	28,450,143	17,816,125	60%
Net position:			
Net investment in capital assets	108,859,401	112,025,728	(3%)
Restricted for capital acquisition	6,923,962	5,903,256	17%
Unrestricted	137,313,883	102,670,960	34%
Total net position	$ 253,097,246	$ 220,599,944	15%

As shown in Table 1, net position was $253.1 million at September 30, 2017 and $220.6 million at September 30, 2016. The increase in net position is a result of an increase in cash and cash equivalents due to lower than anticipated intergovernmental transfer amounts and a planned decrease in revenue in future years of UMCB lease revenue for the lease of the Brackenridge campus.

Statement of Revenues, Expenses, and Changes in Net Position

The following table summarizes Central Health's revenues, expenses, and changes in net position during the years ended September 30, 2017 and 2016:

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

	2017	2016	% Fluctuation
Operating revenues:			
UMCB lease revenue	$ 28,406,069	$ 34,371,984	(17%)
Ground sublease revenue	895,335	885,666	1%
Total operating revenues	29,301,404	35,257,650	(17%)
Operating expenses:			
Health care delivery	159,216,338	223,529,250	(29%)
Salaries and benefits	3,601,810	3,617,393	<1%
Other purchased goods and services	3,042,673	2,962,269	3%
Depreciation	4,628,098	4,413,369	5%
Total operating expenses	170,488,919	234,522,281	(27%)
Operating loss	(141,187,515)	(199,264,631)	(29%)
Nonoperating revenues, net:			
Net ad valorem tax revenue	169,444,641	159,632,618	6%
Net tobacco settlement revenue	3,510,614	2,341,521	50%
Investment income	1,082,506	590,329	83%
Interest expense	(402,344)	(423,102)	(5%)
Other revenue (loss), net	49,400	(163,174)	(130%)
Total nonoperating revenues, net	173,684,817	161,978,192	7%
Change in net position	32,497,302	(37,286,439)	(187%)
Total net position - beginning of year	220,599,944	257,886,383	(14%)
Total net position - end of year	$ 253,097,246	$ 220,599,944	15%

Central Health's operating revenues were $29.3 million for the year ended September 30, 2017, comprised of $28.4 million in lease revenue relating to the UMCB campus. Central Health's operating loss was $141.2 million for the year ended September 30, 2017. Central Health receives property tax revenues to subsidize the cost of services provided to qualified uninsured patients. Although the costs incurred to provide these services are reflected above as operating expenses, the property tax revenues levied to subsidize those costs are required to be reported as nonoperating revenues.

Nonoperating revenues were $173.7 million for the year ended September 30, 2017, comprised mainly of net property taxes of $169.4 million and net tobacco settlement revenue of $3.5 million.

Capital Assets

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

On March 1, 2009, other assets formerly owned by the City of Austin were transferred pursuant to State law to Central Health upon resolution of the FQHC status of CommUnityCare and Central Health, including the David Powell Clinic and the Montopolis Clinic. During the year ended September 30, 2016, Central Health re-conveyed one of the buildings back to the City of Austin.

All conveyed and donated assets were recorded at acquisition value at the date of receipt based on an independent third-party appraisal. The following table summarizes Central Health's capital assets at September 30, 2017 and 2016.

TABLE 3
Capital Assets

	2017	2016
Land	$ 11,770,184	$ 11,770,184
Construction in progress	2,111,110	10,191,003
Buildings and improvements	132,374,053	125,080,604
Equipment and furniture	8,900,240	9,078,151
Subtotal	155,155,587	156,119,942
Less accumulated depreciation	(35,916,186)	(32,739,214)
Total capital assets, net	$ 119,239,401	$ 123,380,728

Additional information regarding Central Health's capital assets can be found in Note 6 of the notes to the financial statements.

TABLE 4
Long-Term Debt

	2017	2016
Certificates of Obligation	$ 10,380,000	$ 11,355,000

Central Health issued $16,000,000 in certificates of obligation on September 20, 2011. During fiscal year 2017, principal payments of $975,000 were made against the certificates of obligation. Additional information regarding the District's long-term debt can be found in Note 8 of the notes to the financial statements.

Economic Conditions and Plan for Fiscal Year 2018

In planning for fiscal year 2018, there were a number of factors Central Health needed to consider, including the following:

- The ongoing reporting and operational requirements of the Medicaid 1115 Waiver Program.
- Collaborating with Seton and the Dell Medical School at The University of Texas at Austin for the implementation on coordination of care through the Community Care Collaborative to move away from fragmented, episodic, fee-for-service care that emphasizes treatment of illness to a system that focuses on improving health outcomes.
- Continued negotiation regarding the development and reuse of the University Medical Center at Brackenridge campus, including continued negotiations with the master developer and potential tenants.
- Effective use of funds to subsidize enrollment in Affordable Care Act Marketplace coverage.
- Funding requirements of HMO risk-based capital reserves for Sendero (a community-based health plan and a component unit of Central Health). Actual payments will be based on risk-based capital requirements as determined by the Texas Department of Insurance.
- The Central Health Board of Managers adopted a total tax rate of 10.7385 cents per $100 valuation of real and personal property for fiscal year 2018 that balances affordability and sustainability of current and future healthcare services.

Contacting Central Health Financial Management

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

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

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

TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH

STATEMENTS OF NET POSITION
SEPTEMBER 30, 2017

	Primary Government	Component Units		
	Business-type Activities	CommUnityCare	Sendero (December 31, 2016)	Community Care Collaborative
ASSETS				
Current assets:				
Cash and cash equivalents	$ 2,939,230	$ 19,751,093	$ 52,175,240	$ 40,624,361
Short-term investments	93,560,920	-	2,442,587	-
Ad valorem taxes receivable, net of allowance for uncollectible taxes of $2,257,722	634,781	-	-	-
Accounts receivable, net of allowance for doubtful amounts of $7,821,690	-	10,614,810	-	-
Accounts receivable, net of allowance for doubtful amounts of $418,574	-	-	1,059,206	-
Settlment receivable			1,662,811	
Premium receivable	-	-	152,632	-
Reinsurance recoverables	-	-	1,255,248	-
Grants receivable	-	1,400,733	-	-
Other receivables	1,922,611	-	-	83,428
Inventory	-	237,336	-	-
Prepaid expenses and other assets	243,484	596,633	145,870	222,412
Total current assets	99,301,026	32,600,605	58,893,594	40,930,201
Noncurrent assets:				
Investments restricted for capital acquisition	6,923,962	-	-	-
Long-term receivables	4,000,000	-	-	-
Investment in Sendero	35,000,000	-	-	-
Sendero surplus debenture	17,083,000	-	-	-
Capital assets:				
Land	11,770,184	-	-	-
Construction in progress	2,111,110	4,735	-	-
Buildings and improvements	132,374,053	858,322	-	-
Equipment and furniture	8,900,240	1,145,140	38,215	-
Less accumulated depreciation	(35,916,186)	(1,531,142)	(37,446)	-
Total capital assets, net	119,239,401	477,055	769	-
Total noncurrent assets	182,246,363	477,055	769	-
Total assets	281,547,389	33,077,660	58,894,363	40,930,201
LIABILITIES				
Current liabilities:				
Accounts payable	2,049,902	2,833,598	711,291	8,803,360
Unpaid losses, loss adjustment expenses and risk adjustment payable	-	-	37,732,268	-
Claims payable	-	-	520,101	-
Premium tax payable	-	-	869,248	-
Salaries and benefits payable	1,177,298	4,775,164	-	-
Accrued interest	32,200	-	-	-
Deferred rent	-	343,147	-	-
Other accrued liabilities	14,535,842	1,042,315	6,686,839	10,555,779
Certificates of obligation	1,000,000	-	-	-
Capital lease obligation	82,673	-	-	-
Unearned revenue	-	1,452,062	3,371,294	2,801,052
Surplus debenture	-	-	17,083,000	-
Due to Central Health	-	507,988	348,296	704,664
Total current liabilities	18,877,915	10,954,274	67,322,337	22,864,855
Noncurrent liabilities:				
Certificates of obligation	9,380,000	-	-	-
Capital lease obligation, net of current portion	192,228	-	-	-
Due to Central Health	-	4,000,000	-	-
Total noncurrent liabilities	9,572,228	4,000,000	-	-
Total liabilities	28,450,143	14,954,274	67,322,337	22,864,855
NET POSITION				
Net investment in capital assets	108,859,401	-	-	-
Restricted for capital acquisition	6,923,962	-	-	-
Restricted for HMO	-	-	35,000,000	-
Unrestricted	137,313,883	18,123,386	(43,427,974)	18,065,346
Total net position	$ 253,097,246	$ 18,123,386	$ (8,427,974)	$ 18,065,346

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

TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
YEAR ENDED SEPTEMBER 30, 2017

	Primary Government	Component Units		
	Business-type Activities	CommUnityCare	Sendero (year ended (December 31, 2016)	Community Care Collaborative
Operating revenues:				
UMCB lease revenue	$ 28,406,069	$ -	$ -	$ -
Ground sublease revenue	895,335	-	-	-
Net patient service revenue	-	35,209,949	-	-
Premium revenue, net	-	-	77,672,634	-
ASO revenue	-	-	192,167	-
Grant revenue	-	10,456,083	-	-
Foundation grant revenue	-	180,720	-	-
Revenue received from Central Health	-	-	-	24,615,508
Revenue received from CCC	-	36,327,166	-	-
Revenue received from Delivery System Reform Incentive Payment	-	14,389,809	-	62,692,721
Revenue received from Seton Affiliation	-	-	-	26,000,000
Personnel services received from an affiliate	-	-	-	810,305
Total operating revenues	29,301,404	96,563,727	77,864,801	114,118,534
Operating expenses:				
Health care delivery	159,216,338	29,617,013	74,474,780	74,371,580
Payment per University of Texas affiliation agreement	-	-	-	35,000,000
Delivery System Reform Incentive Payment program expense	-	-	-	18,272,743
Salaries and benefits	3,601,810	60,923,392	3,579,540	-
Other purchased goods and services	3,042,673	2,832,862	7,912,761	-
Depreciation and amortization	4,628,098	312,124	7,250	-
Total operating expenses	170,488,919	93,685,391	85,974,331	127,644,323
Operating income (loss)	(141,187,515)	2,878,336	(8,109,530)	(13,525,789)
Nonoperating revenues (expenses):				
Ad valorem tax revenue	170,889,155	-	-	-
Tax assessment and collection expense	(1,444,514)	-	-	-
Tobacco settlement revenue, net	3,510,614	-	-	-
Investment income	1,082,506	-	6,534	-
Interest expense	(402,344)	-	-	-
Other revenue (loss)	49,400	-	-	274,137
Total nonoperating revenues, net	173,684,817	-	6,534	274,137
Change in net position prior to capital contribution	32,497,302	2,878,336	(8,102,996)	(13,251,652)
Capital contribution received from Central Health	-	-	6,000,000	-
Change in net position after capital contribution	32,497,302	2,878,336	(2,102,996)	(13,251,652)
Total net position - beginning of year	220,599,944	15,245,050	(6,324,978)	31,316,998
Total net position - end of year	$ 253,097,246	$ 18,123,386	$ (8,427,974)	$ 18,065,346

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

TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH

STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2017

	2017
Cash flows from operating activities:	
Cash received operating leases	$ 26,126,504
Cash payments for health care delivery	(145,431,412)
Cash payments to employees	(3,381,587)
Cash payments for goods and services	(2,176,914)
Net cash used in operating activities	(124,863,409)
Cash flows from noncapital financing activities:	
Ad valorem taxes received	170,706,237
Payments for tax assessment and collection	(1,444,514)
Tobacco settlement received, net	3,510,614
Other nonoperating revenue received	49,400
Payments to CommUnityCare, net	(439,277)
Payments to Sendero, net	(105,736)
Payments to the CCC, net	(269,403)
Net cash provided by noncapital financing activities	172,007,321
Cash flows from investing activities:	
Receipts of interest income	957,674
Net proceeds from sales and purchases of investment pools	(12,136,127)
Purchase of investment securities	(79,099,614)
Proceeds from maturities of investment securities	51,450,872
Investment in Sendero	(6,000,000)
Purchase of capital assets	(486,771)
Payments on capital lease obligations	(81,020)
Principal payments on certificates of obligation	(975,000)
Interest paid on certificates of obligation	(404,245)
Net cash used in investing activities	(46,774,231)
Net increase in cash and cash equivalents	369,681
Cash and cash equivalents - beginning of year	2,569,549
Cash and cash equivalents - end of year	$ 2,939,230
Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (141,187,515)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation and amortization expense	4,628,098
Changes in operating assets and liabilities that provided (used) cash:	
Prepaid expenses and other assets	4,069
Accounts payable	861,690
Salaries and benefits payable	220,223
Other accrued liabilities	13,784,926
Unearned revenue	(3,174,900)
Net cash used in operating activities	$ (124,863,409)

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

1. ORGANIZATION AND MISSION

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

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

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

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

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

Central Health provides patient care to the indigent population of Travis County primarily through the Community Care Collaborative (the "CCC"), which is a 501(c)(3) corporation formed on October 4, 2012, pursuant to the Master Agreement between Central Health and Seton Healthcare Family ("Seton"). Through the CCC and its provider network, Central Health and Seton jointly manage the provision of healthcare services to the safety net population. The CCC is a separate legal entity, and the Central Health Board appoints a majority of its governing board. There is a financial benefit/burden relationship between Central Health and the CCC, in that Central Health provides a subsidy to the CCC. However, due to certain powers reserved to Seton in the Master Agreement, Central Health cannot impose its will on the CCC. The CCC does not meet any of the GASB criteria for blended reporting and, therefore, is presented as a discrete component unit in these financial statements. See Note 10 for further information about the CCC and the Master Agreement with Seton.

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

Sendero Health Plans, Inc. (“Sendero”) is also presented in this report as a discrete component unit of Central Health. Sendero is legally separate from Central Health and is a single-member 501(c)(3) corporation, wholly owned by Central Health. The Central Health Board approves appointments to the Sendero Board of Directors, but there is little overlap between the membership of the two boards. There is a financial benefit/burden relationship between Central Health and Sendero in that Central Health has assumed the obligation to provide financial support to Sendero in the form of advances for risk-based capital. Further, as the sole owner of Sendero, Central Health can impose its will on Sendero. Sendero provides services entirely or mostly to constituents of Central Health as a Medicaid Managed Care Organization. It provides Medicaid services to an eight-county area under a contract with the Texas Health and Human Services Commission. Sendero also provides services related to the Affordable Care Act in the same eight-county service area. Sendero is expected to pay any debts it incurs with its own resources. Central Health has determined it is appropriate and in compliance with generally accepted accounting principles to present financial statement information for Sendero as of and for the year ended December 31st, which is Sendero’s fiscal year end. In addition, Sendero’s economic resources are almost entirely for the benefit of Central Health’s constituents, Central Health is entitled to or has access to a portion of the economic resources of Sendero, and those resources are significant to Central Health. Accordingly, Sendero is presented in this report as a discrete component unit of Central Health.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting - For financial reporting purposes, Central Health is accounted for as a single enterprise fund; the accompanying financial statements are prepared on the accrual basis of accounting.

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

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

Fair Value Measurements - Central Health complies with GASB Statement No. 72, *Fair Value Measurement and Application,* which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction. Fair value accounting requires characterization of the inputs used to measure fair value into a three-level fair value hierarchy as follows:

- Level 1 inputs are based on unadjusted quoted market prices for identical assets or liabilities in an active market the entity has the ability to access.
- Level 2 inputs are observable inputs that reflect the assumptions market participants would use in pricing the asset or liability developed based on market data obtained from sources independent from the entity.
- Level 3 inputs are unobservable inputs that reflect the entity's own assumptions about the assumptions market participants would use in pricing the asset or liability developed based on the best information available.

There are three general valuation techniques that may be used to measure fair value:

- Market approach **-** uses prices generated by market transactions involving identical or comparable assets or liabilities
- Cost approach **-** uses the amount that currently would be required to replace the service capacity of an asset (replacement cost)
- Income approach **-** uses valuation techniques to convert future amounts to present amounts based on current market expectations.

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

Investments - Investments, which include short-term and those restricted for capital acquisition, consisted of investments in an external local government investment pool, governmental agencies and municipal bonds. The external local government investment pool is recognized at amortized cost as permitted by GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*. Any changes in fair value as well as the difference between historical cost and the proceeds received from the sale of the investments are reported in the statements of revenues, expenses, and changes in net position as investment income.

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

Depreciation is recorded on the straight-line method over the estimated useful lives of the assets. Estimated useful lives for buildings and improvements are 20 to 50 years and for equipment and furniture are 3 to 20 years.

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

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

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

Statements of Revenues, Expenses, and Changes in Net Position - For purposes of display, transactions deemed by management to be ongoing, major, or central to the provision of health care services are reported as revenues and expenses. Operating revenues consist of lease payments generated from the lease of UMCB and a separate ground sublease. Nonoperating revenues consist of those revenues that are related to financing types of activities, which are primarily the result of property tax revenues.

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

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

Tobacco Settlement Revenue - Tobacco settlement revenue is the result of a settlement between various counties and hospital districts in Texas and the tobacco industry for tobacco-related health care cost. Central Health recognized $3,510,614 associated with the settlement in the year ended September 30, 2017. Settlement revenues for fiscal year 2017 are based on the investment earnings and the propionate amount of eligible expenses to the entire pool of eligible expenses of the tobacco settlement fund as administered by the Comptroller's Office of the State of Texas. Central Health is unable to estimate the continuance or level of future distributions.

During the year ended September 30, 2017, Central Health budgeted and recorded its tobacco settlement revenue net of amounts distributed to Seton and to Travis County, which were $1,177,199 and $378,459, respectively. Such amounts represent their respective share of total local healthcare expenses claimed for the year ended September 30, 2017.

Codification of Accounting and Financial Reporting Guidance - Central Health complies with GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which incorporates into GASB's authoritative literature certain accounting and financial reporting guidance issued by the Financial Accounting Standards Board and the American Institute of Certified Public Accountants on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements.

Deferred Outflows and Deferred Inflows of Resources - Central Health complies with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of Central Health's net position that is applicable to a future reporting period, and deferred inflows of resources, which represent Central Health's acquisition of net position applicable to a future reporting period.

Central Health complies with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities.

Recently Issued Accounting Pronouncements

In June 2017, the GASB issued GASB Statement No. 87, Leases, effective for fiscal years beginning after December 15, 2019. The objective of GASB Statement No. 87 is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and deferred inflow of resources. Management is evaluating the effects that the full implementation of GASB Statement No. 87 will have on its financial statements for the year ended September 30, 2021.

3. DEPOSITS AND SHORT-TERM INVESTMENTS

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

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

This collateral is held by the Federal Reserve Bank of New York, which in the case of default by JPMorgan Chase will act as agent for Central Health, in a fiduciary account held in the name of JPMorgan Chase and Central Health and pledged to Central Health. During fiscal year 2017, collateral coverage was more than the 105% of bank balances on all days during the year. As of September 30, 2017, Central Health's bank balances in excess of federal depository insurance were fully collateralized.

Deposits are stated at cost plus accrued interest, if any, and the carrying amounts are displayed on the statement of net position as cash and cash equivalents.

Central Health is authorized to purchase, sell, and invest its funds and funds under its control in accordance with the Texas Public Funds Investment Act, Government Code Chapter 2256 and its subsequent amendments. During the fiscal period, investments consisted of U.S. government agencies securities and participation in three local government investment pools (TexPool, TexSTAR and TexasTERM). The carrying amount of investments as of September 30, 2017, is displayed on the statement of net position as short-term and restricted investments.

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

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

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

The government agency securities and municipal bonds are valued using Level 2 inputs that are based in market data obtained from independent sources. The investments are reported by Central Health at fair value in accordance with the GASB Statement No. 72. Balances in the external local government pools are stated at amortized cost, in accordance with GASB Statement No. 79, *Certain External Investments Pools and Pool Participants.* In accordance with GASB Statement No. 79, the external local government investment pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. These pools do not impose any liquidity fees or redemption gates.

As of September 30, 2017, Central Health had the following investments:

Type	Fair Value	Weighted Average Maturity (Days)
Local government investment pools	$ 58,425,410	1
Government agencies	27,882,404	562
Municipal bonds	14,177,068	217
Total fair value	$100,484,882	
Portfolio weighted average maturity		187

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

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

Investments at September 30, 2017	Standard & Poor's Rating
Local government investment pools	AAAm
Government agencies	AA+
Municipal bonds	AAA, AA+, AA, and A+
TexasTERM commercial paper	A-1

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

	Percentage of Portfolio	Portfolio Limit
Investments at September 30, 2017:		
Local government investment pools	37%	80%
Government agencies	28%	75%
Municipal bonds	14%	20%
TexasTERM commercial paper	21%	30%

Information regarding investments in any one issuer that represents five percent or more of Central Health total investments must be disclosed under GASB Statement No. 40, excluding investments issued or explicitly guaranteed by the U.S. government. At September 30, 2017, Central Health's investments which require disclosure are as follows:

	Fair Value	Percentage of Portfolio
Investments at September 30, 2017:		
Federal Home Loan Bank	$ 18,963,821	19%
Federal Farm Credit Bank	9,000,693	9%

4. DISAGGREGATION OF RECEIVABLE BALANCES

Central Health's receivables, (including taxes receivable, other receivables, long-term receivable and the applicable allowances), are comprised of the following as of September 30, 2017:

	Taxes	Due from Component Units	Other	Total
Total	$ 2,892,503	5,771,196	151,415	8,815,114
Less:				
Allowance for uncollectibles	(315,070)	-	-	(315,070)
Allowance for long-term collections	(1,942,652)	-	-	(1,942,652)
Total, net	$ 634,781	5,771,196	151,415	6,557,392
Amounts not scheduled for collection during the subsequent year	$ -	4,000,000	-	4,000,000

At September 30, 2017, due from component units includes a Sendero balance of $558,544 in intercompany receivables, a CCC balance of $704,664 in intercompany receivables, and a CommUnityCare balance of $4,507,988, which contains $4,000,000 in noncurrent assets. At September 30, 2017, the other receivable balance is comprised of $137,388 accrued interest on investments and $14,027 in miscellaneous receivables.

5. SENDERO SURPLUS DEBENTURE AND CAPITAL CONTRIBUTION

Effective December 30, 2015, Central Health amended and restated the previously issued surplus debenture to Sendero, in the amount of $8,000,000, with an additional amount of $9,083,000 for a total of $17,083,000. The par value and carrying value of the debenture is $17,083,000 with interest accruing at 1.00%. Interest will not be a legal or financial statement liability of Sendero or a claim on the assets of Sendero unless the following are satisfied: (i) as of the payment date, the amount of Sendero's surplus that is in excess of the surplus floor must equal or exceed the debenture's scheduled payment and (ii) immediately after the scheduled interest payment is made, Sendero will continue to have surplus equal to or in excess of the surplus floor and the minimum amount required by law. The surplus floor is defined as the greater of: (i) $1,500,000 or (ii) 375% of risk-based capital. Subject to the requirements of Chapter 427 of the Texas Insurance Code and terms of the debenture, principal is to be paid in annual installments on December 1 of each year, commencing on December 1, 2016 and continuing for approximately 30 years through December 1, 2045.

Principal will not be a legal or financial statement liability for Sendero or a claim on its assets unless the following are satisfied: (i) as of the payment date, the amount of unpaid principal must equal or exceed the debenture's scheduled payment; (ii) immediately after the scheduled payment Sendero will continue to have surplus equal to or in excess of the required minimum required by law; and (iii) Sendero's Board of Directors shall have authorized the scheduled payment.

In the event of the voluntary or involuntary liquidation of Sendero, the debenture is intended to become a fully matured due and payable liability of Sendero, but subordinated to claims and rights of policyholders and policy beneficiaries of Sendero. Additionally, in the event of liquidation, any payment of interest or principal will be made in accordance with Chapter 443 of the Texas Insurance Code.

No interest or principal payments have been received or accrued for since the effective date of the debenture due to Sendero's not meeting the requirements stated above.

During the year ended September 30, 2017, Central Health provided Sendero with a $6,000,000 funding contribution.

6. CAPITAL ASSETS

Central Health's capital assets are comprised of the following as of September 30, 2017:

	Beginning Balance	Additions	Retirements/ Transfers	Ending Balance
Capital assets not being depreciated:				
Land	$ 11,770,184	-	-	11,770,184
Construction in progress	10,191,003	406,893	(8,486,786)	2,111,110
Total capital assets not being depreciated	21,961,187	406,893	(8,486,786)	13,881,294
Capital assets being depreciated:				
Building and improvements	125,080,604	42,463	7,250,986	132,374,053
Equipment and furniture	9,078,151	37,415	(215,326)	8,900,240
Total capital assets being depreciated	134,158,755	79,878	7,035,660	141,274,293
Less accumulated depreciation for:				
Building and improvements	(26,671,670)	(3,372,506)	11,730	(30,032,446)
Equipment and furniture	(6,067,544)	(1,255,592)	1,439,396	(5,883,740)
Total accumulated depreciation	(32,739,214)	(4,628,098)	1,451,126	(35,916,186)
Total capital assets being depreciated	101,419,541	(4,548,220)	8,486,786	105,358,107
Capital assets, net	$123,380,728	(4,141,327)	-	119,239,401

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

With the granting of the Federally Qualified Healthcare Center status to Central Health and CommUnityCare jointly on March 1, 2009, ownership of certain assets formerly owned by the City of Austin were deeded from the City of Austin to Central Health in fiscal year 2009. During the year ended September 30, 2017, Central Health re-conveyed one of the buildings back to the City of Austin.

7. CAPITAL LEASES

During the year ended September 30, 2017, Central Health entered into capital leases for medical equipment. As of September 30, 2017, equipment under capital lease included in capital assets was $270,154, net of accumulated amortization of $145,468. Amortization related to the equipment under capital lease has been included within depreciation and amortization of capital assets.

Future minimum payments due under these lease agreements at September 30, 2017 were as follows:

2018	$ 87,463
2019	87,463
2020	87,463
2021	21,865
Total	284,254
Amount representing interest	(9,353)
Capital lease obligations	274,901
Less: Current portion of capital lease obligations	(82,673)
Capital lease obligations, net of current portion	$ 192,228

8. LONG-TERM DEBT

The following is a summary of changes in long-term debt for the period ended September 30, 2017:

	Beginning Balance	Additions	Retirements	Ending Balance
Certificates of Obligation	$ 11,355,000	-	(975,000)	10,380,000

Certificates of Obligation debt consists of the following at September 30, 2017:

Series	Date of Issue	Amount of Original Issue	Matures Through	Interest Rate	Outstanding at 9-30-17	Due Within One Year
2011	9-20-11	$ 16,000,000	2026	0.50 - 4.25%	$ 10,380,000	$ 1,000,000

As of September 30, 2017, the debt service requirements of indebtedness to maturity are as follows:

Year Ended September 30,	Principal	Interest	Total
2018	$ 1,000,000	372,795	1,372,795
2019	1,030,000	342,818	1,372,818
2020	1,065,000	308,283	1,373,283
2021	1,100,000	270,160	1,370,160
2022	1,140,000	228,649	1,368,649
2023 - 2026	5,045,000	431,073	5,476,073
Total	$ 10,380,000	1,953,778	12,333,778

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

9. OPERATING LEASE WITH SETON

Effective June 1, 2013, Central Health and Seton entered into a Master Agreement and ancillary agreements including a lease for UMCB that superseded the original lease inherited from the City of Austin, as amended. See Note 10 for a discussion of the Master Agreement and ancillary agreements.

The UMCB lease provided that Seton will continue to lease and operate UMCB until construction of a new teaching hospital was completed. The new teaching hospital, Dell Seton Medical Center at the University of Texas opened in May of 2017. The UMCB lease provides that Central Health and Seton shall negotiate mutually agreeable terms of a written amendment to the UMCB lease that will allow Seton to continue to lease, occupy and use specified portions of the UMCB campus. A new lease was executed in December 2017 with an initial term of December 31, 2017 through September 30, 2024. See Note 24 for more details.

10. CENTRAL HEALTH/SETON MASTER AND ANCILLARY AGREEMENTS

Effective June 1, 2013, Central Health and Seton entered into a Master Agreement and ancillary agreements including: a lease for UMCB and an Omnibus Services Agreement.

Through the Master Agreement, Central Health and Seton formed the CCC, a 501(c)(3) corporation that was created to better organize and integrate the provision of healthcare services to low income and uninsured residents in Travis County and to provide a framework for participating in the Texas Healthcare and Quality Improvement Program, a statewide Medicaid 1115 waiver program. Through the CCC, the parties will jointly manage the provision of indigent healthcare including the covered population and benefits plans to be offered to them. The CCC is a performing provider that carries out a number of Delivery System Reform Incentive Payment (“DSRIP”) projects through the Medicaid 1115 waiver, those that will be done in an ambulatory setting. Seton carries out a number of DSRIP projects in a hospital setting, either at UMCB or at the Dell Children’s Hospital.
St. David’s is also performing a DSRIP project.

The UMCB lease provided that Seton will continue to operate UMCB until it has completed the construction of a new teaching hospital, Dell Seton Medical Center at the University of Texas which opened in May of 2017. The teaching hospital will serve as the medical education setting for the Dell Medical School at the University of Texas at Austin (“UT”) and will replace UMCB as the primary safety-net hospital in Travis County. The UMCB lease also provides that Central Health and Seton shall negotiate mutually agreeable terms of a written amendment to the UMCB lease that will allow Seton to continue to lease, occupy and use specified portions of the UMCB campus. A new lease was executed in December 2017 with an initial term of December 31, 2017 through September 30, 2024. See Note 24 for more details.

The Omnibus Services Agreement specified the services to be provided by Seton pursuant to the IDS, the CCC, Seton’s charity care program as described in Annex A of the Omnibus Agreement, the Medical Access Program (“MAP”) Healthcare Services as described in Annex C of the Omnibus Agreement, and other applicable charity care programs (“Baseline Service Obligation”). Pursuant to Section 5.5 of the Omnibus Agreement, the intention of the Omnibus Agreement is to memorialize the current arrangement between the parties regarding the scope, availability and current value of Covered Healthcare Services currently provided by Seton to Covered Beneficiaries. Under the Master Agreement, Seton must provide this baseline level of service for the initial 25 year term of the agreement. Even if the Master Agreement terminates, Seton must continue to provide the same level of inpatient and outpatient services to the Covered Population that it served during the last full calendar year prior to termination for a period of five years.

11. APPRAISAL DISTRICT AND AD VALOREM TAXES

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

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

The assessed value at January 1, 2016, upon which the October 2016 levy was based, was $172,285,049. Central Health levied taxes based on a tax rate of $0.110541 per $100 of assessed valuation in fiscal year 2017.

12. INTERLOCAL AGREEMENT WITH THE CITY OF AUSTIN

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

Central Health also entered into several leases of mixed-use facilities from the City of Austin for primary care (clinic) sites that, pursuant to State law, did not transfer to Central Health. The mixed-use facility leases may remain in place until February 28, 2034, if not terminated earlier by either party. Rental expense to Central Health is comprised only of the operating and maintenance expense for each facility. In addition, Central Health entered into a lease of administrative space from the City of Austin that was renewed in 2012 and expires on February 28, 2034, under essentially the same terms and conditions as those of the mixed-use facilities.

13. INTERLOCAL AGREEMENTS WITH TRAVIS COUNTY

Central Health entered into an Interlocal agreement with Travis County in which Travis County provides legal and other services for Central Health along with the tax collection services discussed in Note 11. Central Health also entered into several leases of mixed-use facilities from Travis County for primary care (clinic) sites that, pursuant to State law, did not transfer to Central Health. The mixed-use facility leases may remain in place until February 28, 2019, if not terminated earlier by either party. Rental expense to Central Health is comprised only of the operating and maintenance expense for each facility.

14. AGREEMENT WITH COMMUNITYCARE

Effective March 1, 2009, Central Health entered into an agreement with CommUnityCare to manage and operate health clinics primarily for the benefit of Central Health's constituents. The agreement term was for two years with automatic renewal for every subsequent two year terms unless sooner terminated in writing. Central Health continues to provide advances in the form of payment of certain employee benefits or jointly used assets and services. Central Health has moved the responsibility for payment of patient care for the MAP and Sliding Fee Scale patient populations to the CCC. CommUnityCare has a contract with the CCC to provide care at agreed upon rates. These payments for patient care are presented as revenue received from CCC on the statements of revenues, expenses, and changes in net position.

Central Health and CommUnityCare also operate under a space allocation agreement for certain facilities where CommUnityCare agrees to be solely responsible for the day-to-day operations of clinic space and other healthcare related activities with financial support from Central Health.

15. THE UNIVERSITY OF TEXAS AFFILIATION AGREEMENT

On July 10, 2014, Central Health, the CCC, and UT entered into an affiliation agreement under which UT will assist Central Health and the CCC in the support of the Integrated Delivery System including:

- Serving low-income communities by training residents in community based settings;
- Developing appropriate levels of clinical services at community clinics;
- Promoting effective and efficient medical practice by training professionals to work together in multi-disciplinary teams;
- Providing medical care and clinical services with a focus on preventative health care and factors that impact health outcomes and utilizing data to educate physicians and patients on methods to achieve better health outcomes and reduce disparities; and
- Providing women's health services.

Pursuant to the affiliation agreement, the CCC funds may only be used by UT to fund Permitted Investments related to transforming and improving health care for Travis County residents. Permitted Investments are defined as the continuing investment in programs, projects, operations and providers that furthers the missions of the CCC and Central Health, benefits UT and complies with all Laws that apply to each party, and shall include, but not be limited to:

- The enhancement of medical services for residents of Travis County;
- Directly or indirectly increasing health care resources available to provide services to Travis County residents;
- The discovery and development of new procedures, treatments, drugs, and medical devices that will augment the medical options available to Travis County residents;
- Development and operation of collaborative and integrated health care for Travis County residents; and
- Direct operating support to UT to be used for:
    - The development, accreditation, and ongoing operation of the Dell Medical School and its administrative infrastructure;
    - Recruitment, retention and work of Dell Medical School faculty, residents, medical students, researchers, administrators, staff and other clinicians;
    - Related activities and functions as described in the affiliation agreement.

The CCC paid UT annual Permitted Investment Payments in the amount of $35 million each year in 2017, 2016, 2015, and 2014. Central Health will guarantee these payments to be made by the CCC, to the extent it is permitted to do so by the Constitution and the Laws of the State of Texas. The initial term of the affiliation agreement is 25 years from the effective date, with an automatic renewal for a successive 25 year term.

16. DEFERRED COMPENSATION PLAN

Central Health offers its employees a deferred compensation plan established in accordance with Internal Revenue Code Section 457. Assets and income of Central Health's plan are administered by a private corporation under contract with Central Health and are held for the exclusive benefit of the participants and their beneficiaries. Accordingly, the plan's assets and liabilities are not recorded in Central Health's financial statements. During the year ended September 30, 2017, Central Health contributed $27,540 to the plan under Central Health's deferred compensation matching program.

17. RETIREMENT PLAN

In October 2007, Central Health began offering its employees a 401(a) plan established in accordance with Internal Revenue Code Section 401(a). Assets and income of Central Health's plan are administered by a private corporation under contract with Central Health and are held for the exclusive benefit of the participants and their beneficiaries. Accordingly, the plan's assets and liabilities are not recorded in Central Health's financial statements. During the year ended September 30, 2017, Central Health contributed $274,943 to the plan under Central Health's retirement program.

18. HEALTH CARE COVERAGE

During the year ended September 30, 2017, employees of Central Health were covered by a health insurance plan. On average, Central Health contributed $540 per month per employee to the plan during the year ended September 30, 2017. Central Health contributed a portion of the cost of family coverage, if applicable, and employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All contributions were paid to a licensed insurer. The plan was documented by a contractual agreement.

19. OPERATING LEASES

Central Health leases a clinic facility and other equipment under noncancelable long-term leases that expire at various dates through January 2021. The clinic facility lease requires additional payments for common area maintenance and real estate taxes. Rent expense for the year ended September 30, 2017 was $1,259,098. Future minimum rental payments as of September 30, 2017 are as follows:

2018	$ 518,845
2019	254,333
2020	209,102
2021	68,021
Total	$ 1,050,301

20. GROUND LEASE AND SUBLEASE

On October 15, 2014, Central Health approved a ground lease (the "ground lease") with UT to lease a parcel of UT land for the site of the new teaching hospital (the "site"). Effective October 17, 2014, the site was approved for sublease to Seton (the "sublease") to construct and operate the teaching hospital affiliated with the Dell Medical School at UT. The term of the ground lease is for 60 years with two 10 year renewals and establishes an initial annual base rent amount of $877,621. The sublease has the same term and payment amount as the ground lease and offsets any impact to total net position. The property must be used for hospital operations and to fulfill Central Health's requirement of maintaining a safety net hospital for low income or uninsured residents of Travis County.

Ground lease payments of $895,335 for the fiscal year ended September 30, 2017 are included in health care delivery operating expenses in the statements of revenues, expenses, and changes in net position. A corresponding amount is recognized as ground sublease revenue as a result of the sublease agreement with Seton and offsets the ground lease payment amount made to UT.

Beginning in 2016, the base rent amount will be adjusted annually by an amount proportional to the percentage increase in the CPI-U during the preceding year; however, the annual increase shall not be less than one percent (1%). Every 15th year of the ground lease, an appraisal shall be performed to determine the fair market value and the base rent amount shall be adjusted accordingly.

Future minimum ground lease payments to be paid by Central Health and future minimum sublease payments due to Central Health are based on current market value with a minimum annual increase of one percent (1%) as of September 30, 2017 are as follows:

2018	$ 903,467
2019	912,502
2020	921,627
2021	930,843
2022	940,152
Thereafter	64,350,182
Total	$ 68,958,773

As the ground lease payments required to be submitted to UT and the sublease payments required to be received from Seton offset each other, there is no net impact expected to be recognized in subsequent years.

21. RISK MANAGEMENT

Central Health's risk management program includes coverage through third party insurance providers for general liability, property damage, officers' professional liability, workers compensation, and other types of insurance as appropriate. During the year ended September 30, 2017, there were no reductions in insurance coverage from coverage in the prior year and there have been no claims other than routine claims for workers compensation, none of which was significant.

22. COMMITMENTS AND CONTINGENCIES

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

23. MEDICAID 1115 WAIVER

The initial Medicaid 1115 Waiver was for a five year period ending September 30, 2016. In May 2016 the Centers for Medicare & Medicaid Services (CMS) approved a temporary fifteen month extension through December 2017 at the current annual funding levels. On December 21st, 2017, Texas Health and Human Services Commission (HHSC) and the Center for Medicare and Medicaid Services (CMS) reached an agreement to extend the 1115 Transformation Waiver. This extension is for an additional five years and ends September 30, 2022. The new waiver maintains DSRIP funding for the first two years and then reduces the amount of DSRIP funding over the following two years. There is no DSRIP funding in FY2022, the fifth year of the waiver.

Central Health provides local funding know as Intergovernmental Transfers that are used to draw matching federal funds for the performance of Delivery System Reform Incentive Program (DSRIP) projects. Central Health provides local funding for projects performed by the CCC, Seton, Dell Children's Hospital, and St. David's hospitals.

24. SUBSEQUENT EVENTS

Central Health has evaluated subsequent events through January 26, 2018 (the date the financial statements were available to be issued).

In December 2017, Central Health and Seton executed a lease agreement effective December 31, 2017 for the parking garage and the Continuing Education Center on the Brackenridge Campus. The new agreement reflects the relocation of hospital services provided at UMCB and the opening of the new Teaching Hospital located in close proximity. The date of the transition was May 22, 2017. The lease agreement has an initial term of December 31, 2017 through September 30, 2024 with renewal options for seven additional terms each for 120 months thereafter. Due to the length of negotiations, Seton continued to pay lease amounts under the terms of the previous lease agreement during fiscal year 2017. Under terms of the new lease agreement, Central Health is obligated to refund the difference between the prior and the new lease agreement amount paid. The amount to be refunded is $9.7 million and will be refunded to Seton in January 2018.

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

To the Board of Managers of
Travis County Healthcare District:

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the business-type activities and the aggregate discretely presented component units of the Travis County Healthcare District (doing business as and hereinafter referred to as "Central Health"), as of and for the year ended September 30, 2017, and the related notes to the financial statements, which collectively comprise Central Health's basic financial statements, and have issued our report thereon dated January 26, 2018.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Central Health's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

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

Maxwell Locke + Ritter LLP

Austin, Texas
January 26, 2018