

**TRAVIS COUNTY
HEALTHCARE DISTRICT
dba CENTRAL HEALTH,
A COMPONENT UNIT OF
TRAVIS COUNTY, TEXAS**

**Financial Statements with
Supplementary Information for the
Year Ended September 30, 2011
and Independent Auditors' Report**

**TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH,
A COMPONENT UNIT OF TRAVIS COUNTY, TEXAS**

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INDEPENDENT AUDITORS' REPORT

The Board of Managers of
Travis County Healthcare District:

We have audited the accompanying statements of net assets of Travis County Healthcare District (doing business as and hereinafter referred to as "Central Health"), a component unit of Travis County, Texas, and of its discretely presented component units as of September 30, 2011, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of Central Health's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Central Health and of its discretely presented component units as of September 30, 2011, and the respective changes in financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated January 16, 2012, on our consideration of Central Health's internal control over financial reporting and 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 on internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

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This firm is not a CPA firm

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 10 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 basic financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Central Health's financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is also not a required part of the financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Maxwell Locke + Ritter LLP

January 16, 2012

TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH, A COMPONENT UNIT OF TRAVIS COUNTY, TEXAS

YEAR ENDED SEPTEMBER 30, 2011

MANAGEMENT’S DISCUSSION AND ANALYSIS

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, 2011. Please read this section in conjunction with Central Health’s financial statements, which begin on page 11.

Background and Formation

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

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

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

Central Health may levy taxes to finance health care services and the levy may not exceed 25 cents on each \$100 of the taxable value of property taxable by Central Health. The 2011 tax levy for Central Health was 7.19 cents per \$100 valuation of assessed property.

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

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

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

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

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

Financial Highlights

- Central Health’s net assets increased \$5.2 million, a 2% increase over prior year net assets.
- During the year, Central Health’s total operating revenues were \$42.1 million and operating expenses were \$106.6 million. Nonoperating revenues, comprised primarily of property tax, were \$69.7 million, net of nonoperating expenses.
- To carry out its fiscal responsibility to the taxpayers, Central Health maintained reserve funds to protect its financial security and operational stability in consideration of the risks it faces. In fiscal year 2008, Central Health established unallocated reserves to be set at 150 days cash on hand and established a capital reserve equal to depreciation expense, and it maintained these reserves in fiscal year 2011. Central Health’s reserve policy will continue to be reviewed annually in association with the budget process.
- Central Health received a AAA rating from Standard & Poor’s on its first debt issuance (see Note 7 in this report for more information).

Operational Highlights

- Funded 267,119 total primary visits in fiscal year 2011, including medical, dental, and behavioral health visits, an increase of 2.8% over 2010.
- Enrolled an average of 21,055 in its Medical Access Program (MAP) in fiscal year 2011, a 23% increase over 2010.
- Handled 95,676 calls in the call center in fiscal year 2011, an 8% increase in calls over 2010.
- Began implementation of Sendero Health Plans, Inc., a Medicaid managed care HMO that will manage the care of Medicaid, CHIP (Children's Health Insurance Program), and MAP patients in fiscal year 2012.
- Provided \$1 million in funding to the Integrated Care Collaboration for upgrades to the Health Information Exchange in Central Texas.
- Completed construction of the new North Central Health Clinic, a 50,000 square-foot facility with 57 exam rooms and 18 operatories that will serve as a primary care and multi-specialty hub for the northern part of Central Health's service area.
- Purchased the Veterans Administration Outpatient Clinic, a 68,000 square-foot facility on a ten-acre tract in Southeast Austin. The Central Texas Veterans Health Care System will continue to operate the clinic until 2014, at which time it will become a primary care and multi-specialty hub for the south and southeast portions of Central Health's service area.

Financial Statements

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

The statement of net assets and the statement of revenues, expenses, and changes in net assets reflect Central Health's financial position at the end of the year and report Central Health's net assets and changes in them as a result of Central Health's revenues and expenses for the year. The term "net assets" 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 assets 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 two 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 Health Plans, Inc. (“Sendero”) is also presented as a discrete component unit as there is some financial accountability by Sendero 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 Assets

The following table summarizes Central Health’s assets, liabilities and net assets as of September 30, 2011 and 2010:

TABLE 1
Condensed Statement of Net Assets

	2011	2010	%
			Fluctuation
Current and other assets	\$ 123,659,745	\$ 116,009,390	7%
Noncurrent assets	14,954,369	22,309,942	(33%)
Capital assets	116,126,655	95,098,686	22%
Total assets	<u>254,740,769</u>	<u>233,418,018</u>	9%
Current liabilities	6,599,805	5,595,045	18%
Noncurrent liabilities	15,070,000	-	100%
Total liabilities	<u>21,669,805</u>	<u>5,595,045</u>	287%
Net assets:			
Invested in capital assets, net of related debt	100,359,064	95,098,686	6%
Restricted for capital acquisition	5,786,416	-	100%
Unrestricted	126,925,484	132,724,287	(4%)
Total net assets	<u>\$ 233,070,964</u>	<u>\$ 227,822,973</u>	2%

As shown in Table 1, net assets were \$233.1 million at September 30, 2011 and \$227.8 million at September 30, 2010. The change in net assets of \$5.2 million is due to the increase of operating and nonoperating revenue (net of nonoperating expense) over operating expense.

Statement of Revenues, Expenses, and Changes in Net Assets

The following table summarizes Central Health's revenues, expenses, and changes in net assets during the years ended September 30, 2011 and 2010:

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

	<u>2011</u>	<u>2010</u>	<u>% Fluctuation</u>
Operating revenues:			
Lease revenue – additional rent	\$ 28,439,915	\$ 39,577,513	(28%)
Lease revenue – base rent	1,155,396	1,155,396	0%
Grant revenue	<u>12,482,155</u>	<u>-</u>	100%
Total operating revenues	<u>42,077,746</u>	<u>40,732,909</u>	3%
Operating expenses:			
Health care delivery			
Total operating expenses			
Operating loss	94,391,804	82,853,821	14%
Salaries and benefits			
Depreciation and amortization	5,526,007	4,836,950	14%
Other purchased goods and services			
Depreciation and amortization	4,203,036	2,486,882	69%
Depreciation	<u>2,456,234</u>	<u>2,334,702</u>	5%
Total operating expenses	<u>106,577,381</u>	<u>92,512,355</u>	15%
Operating loss	<u>(64,499,915)</u>	<u>(51,779,446)</u>	25%
Nonoperating revenues, net:			
Net ad valorem tax revenue	67,745,192	66,109,165	2%
Net tobacco settlement revenue	1,641,354	1,390,461	18%
Investment income	387,549	695,580	(44%)
Interest expense	(42,532)	-	100%
Other revenue	<u>16,343</u>	<u>104,651</u>	(84%)
Total nonoperating revenues, net	<u>69,747,906</u>	<u>68,299,857</u>	2%
Change in net assets	5,247,991	16,520,411	(68%)
Total net assets - beginning of year	<u>227,822,973</u>	<u>211,302,562</u>	8%
Total net assets - end of year	<u>\$ 233,070,964</u>	<u>\$ 227,822,973</u>	2%

Central Health's operating revenues were \$42.1 million for the year ended September 30, 2011, comprised of \$28.4 million in additional rent revenue, \$1.2 million in base rent revenue relating to University Medical Center Brackenridge and Austin Women's Hospital, and \$12.5 million in grant revenue.

Central Health's operating loss was \$64.5 million for the year ended September 30, 2011. 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 \$69.7 million for the year ended September 30, 2011, comprised of net property taxes of \$67.7 million, net tobacco settlement revenue of \$1.6 million, investment income of \$0.4 million and other revenue and expense.

Capital Assets

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

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

All conveyed and donated assets were recorded at fair market value at the date of receipt based on an independent third-party appraisal. The following table summarizes Central Health's capital assets at September 30, 2011 and 2010.

TABLE 3
Capital Assets

	2011	2010
Land	\$ 10,345,124	\$ 10,345,124
Buildings and improvements	91,529,328	91,286,390
Equipment and furniture	3,091,089	2,843,754
Construction in progress	25,587,632	2,593,602
Subtotal	<u>130,553,173</u>	<u>107,068,870</u>
Less accumulated depreciation	<u>(14,426,518)</u>	<u>(11,970,184)</u>
Total capital assets, net	<u>\$ 116,126,655</u>	<u>\$ 95,098,686</u>

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

Long-Term Debt Activity

	2011	2010
Certificates of Obligation	\$ 16,000,000	\$ -
Total	<u>\$ 16,000,000</u>	<u>\$ -</u>

Central Health issued \$16,000,000 in certificates of obligation on September 20, 2011. At the time of issuance, costs of issuance and underwriter's discount totaled \$232,409. More detailed information about the District's long-term debt is presented in the *Notes to Basic Financial Statements*.

Current Budget

Annually, Central Health prepares a budget for approval by the Board of Managers and for submission to the Travis County Commissioners' Court for approval prior to the beginning of the operating year. Table 4 presents the amended budget as compared to fiscal year 2011 actual amounts.

TABLE 4
Budget vs. Actual

	Budget 2011	Actual 2011	Favorable (Unfavorable) Variance
Operating revenues:			
Revenue:			
Lease revenue - additional rent	\$ 28,389,113	28,439,915	50,802
Lease revenue - base rent	1,155,396	1,155,396	-
Grant revenue	-	12,482,155	12,482,155
Total operating revenues	<u>29,544,509</u>	<u>42,077,466</u>	<u>12,532,957</u>
Operating expenses:			
Health care delivery	102,527,726	94,391,804	8,135,922
Salaries and benefits	6,013,007	5,526,007	487,000
Other purchased goods and services	4,614,021	4,203,236	410,785
Depreciation	2,500,000	2,456,334	43,666
Total operating expenses	<u>115,654,754</u>	<u>106,577,381</u>	<u>9,077,373</u>
Operating loss	<u>(86,110,245)</u>	<u>(64,499,915)</u>	<u>21,610,330</u>
Nonoperating revenues (expenses):			
Ad valorem tax revenue	66,431,022	68,533,623	2,102,601
Tax assessment and collection expense	(801,980)	(788,431)	13,549
Tobacco settlement revenue	1,400,000	1,641,354	241,354
Investment income	1,800,000	387,549	(1,412,451)
Interest expense	-	(42,532)	(42,532)
Other revenue	-	16,343	16,343
Total nonoperating revenues, net	<u>68,829,042</u>	<u>69,747,906</u>	<u>918,964</u>
Change in net assets	<u>\$ (17,281,203)</u>	<u>5,247,991</u>	<u>22,529,194</u>

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

Upon completion of the year, operating revenues exceeded budget by \$12.5 million and this increase is due to monies received related to grant revenue.

Actual operating expenses were under budget by \$9.1 million primarily due to a favorable variance in healthcare delivery expenses. As compared to budget, Central Health experienced a favorable variance of \$5.2 million.

Economic Conditions and Plan for Fiscal Year 2012

In planning for fiscal year 2012, there were a number of factors Central Health needed to consider, including the following:

- The statewide implementation of Medicaid managed care and the 1115 Medicaid waiver, which will replace the public and private upper payment limit programs (see Notes 8 and 10 of this report for more information on these programs);
- The implementation of the Affordable Care Act at the federal and state level; and
- The continuing expansion of medical education here in Austin.

The Central Health Board of Managers adopted a tax rate of 7.89 cents per \$100 valuation of real and personal property for fiscal year 2012. This rate includes an operating maintenance tax rate of 7.74 cents, which is 6.5% above the effective tax rate, and a debt service tax rate of 0.15 cents.

Contacting District Financial Management

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

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

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

**TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH,
A COMPONENT UNIT OF TRAVIS COUNTY, TEXAS**

**STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2011**

	<u>Primary Government Governmental Activities</u>	<u>Component Unit CommUnityCare</u>	<u>Component Unit Sendero</u>
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 24,811	\$ 8,989,879	\$ 200,000
Restricted cash and cash equivalents	55,682	-	1,500,000
Short-term investments	117,255,536	-	-
Ad valorem taxes receivable, net of allowance for uncollectible taxes of \$1,397,108	357,919	-	-
Accounts receivable, net of allowance for doubtful amounts of \$15,370,872	-	3,147,571	-
Grants receivable	1,382,691	1,458,317	-
Other receivables	4,472,028	-	-
Inventory	-	231,945	-
Prepaid expenses and other assets	111,078	296,792	-
Total current assets	<u>123,659,745</u>	<u>14,124,504</u>	<u>1,700,000</u>
Noncurrent assets:			
Deferred issuance costs	232,409	-	-
Investments restricted for capital acquisition	9,221,960	-	-
Long-term receivables	4,000,000	-	-
Investment in Sendero	1,500,000	-	-
Capital assets:			
Land	10,345,124	-	-
Buildings and improvements	91,529,328	100,943	-
Equipment and furniture	3,091,089	420,282	-
Construction in progress	25,587,632	59,666	-
Less accumulated depreciation	<u>(14,426,518)</u>	<u>(95,347)</u>	<u>-</u>
Total capital assets, net	<u>116,126,655</u>	<u>485,544</u>	<u>-</u>
Total noncurrent assets	<u>131,081,024</u>	<u>485,544</u>	<u>-</u>
Total assets	<u>254,740,769</u>	<u>14,610,048</u>	<u>1,700,000</u>
LIABILITIES			
Current liabilities:			
Accounts payable	4,354,293	1,393,533	-
Salaries and benefits payable	522,759	2,941,870	-
Accrued interest	88,102	-	-
Due to other governments	81,154	-	-
Deferred revenue	-	166,790	-
Other accrued liabilities	-	877,706	-
Retainage payable	623,497	-	-
Certificates of obligation	930,000	-	-
Due to Travis County Healthcare District	-	3,342,377	-
Total current liabilities	<u>6,599,805</u>	<u>8,722,276</u>	<u>-</u>
Noncurrent liabilities:			
Certificates of obligation	15,070,000	-	-
Due to Travis County Healthcare District	-	4,000,000	-
Total noncurrent liabilities	<u>15,070,000</u>	<u>4,000,000</u>	<u>-</u>
Total liabilities	<u>21,669,805</u>	<u>12,722,276</u>	<u>-</u>
NET ASSETS			
Invested in capital assets, net of related debt	100,359,064	-	-
Restricted for capital acquisition	5,786,416	-	-
Restricted for HMO	-	-	1,500,000
Unrestricted	<u>126,925,484</u>	<u>1,887,772</u>	<u>200,000</u>
Total net assets	<u>\$ 233,070,964</u>	<u>\$ 1,887,772</u>	<u>\$ 1,700,000</u>

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

**TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH,
A COMPONENT UNIT OF TRAVIS COUNTY, TEXAS**

**STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2011**

	<u>Primary Government Governmental Activities</u>	<u>Component Unit CommUnityCare</u>	<u>Component Unit Sendero</u>
Operating revenues:			
Lease revenue - additional rent	\$ 28,439,915	\$ -	\$ -
Lease revenue - base rent	1,155,396	-	-
Patient service revenue	-	16,578,149	-
Grant revenue	12,482,155	6,886,560	-
Revenue received from Travis County Healthcare District	-	34,396,928	1,700,000
Total operating revenues	<u>42,077,466</u>	<u>57,861,637</u>	<u>1,700,000</u>
Operating expenses:			
Health care delivery	94,391,804	16,510,858	-
Salaries and benefits	5,526,007	37,585,188	-
Other purchased goods and services	4,203,236	2,821,652	-
Depreciation	2,456,334	64,128	-
Total operating expenses	<u>106,577,381</u>	<u>56,981,826</u>	<u>-</u>
Operating income (loss)	<u>(64,499,915)</u>	<u>879,811</u>	<u>1,700,000</u>
Nonoperating revenues (expenses):			
Ad valorem tax revenue	68,533,623	-	-
Tax assessment and collection expense	(788,431)	-	-
Tobacco settlement revenue, net	1,641,354	-	-
Investment income	387,549	-	-
Interest expense	(42,532)	-	-
Other revenue	16,343	4,781	-
Total nonoperating revenues, net	<u>69,747,906</u>	<u>4,781</u>	<u>-</u>
Change in net assets	<u>5,247,991</u>	<u>884,592</u>	<u>1,700,000</u>
Total net assets - beginning of year	<u>227,822,973</u>	<u>1,003,180</u>	<u>-</u>
Total net assets - end of year	<u>\$ 233,070,964</u>	<u>\$ 1,887,772</u>	<u>\$ 1,700,000</u>

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

**TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH,
A COMPONENT UNIT OF TRAVIS COUNTY, TEXAS**

**STATEMENT OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2011**

Cash flows from operating activities:

Cash received from operating leases - additional rent, net	\$ 28,439,915
Cash payments for private UPL program	(26,878,232)
Cash received from operating leases - base rent	1,155,396
Cash received from federal grants	11,099,464
Cash payments for goods and services	(61,218,357)
Cash payments to employees	<u>(5,440,753)</u>
Net cash used in operating activities	<u>(52,842,567)</u>

Cash flows from noncapital financing activities:

Ad valorem taxes received	68,581,284
Payments for tax assessment and collection	(788,431)
Tobacco settlement received, net	1,641,354
Other nonoperating revenue received	16,343
Payments made to Sendero	(1,700,000)
Receipts from CommUnityCare, net	<u>3,405,803</u>
Net cash provided by noncapital financing activities	<u>71,156,353</u>

Cash flows from investing activities:

Receipts of interest income	1,505,870
Purchase of investment pools	(27,615,985)
Purchase of investment securities	(87,750,000)
Proceeds from maturities of investment securities	100,750,000
Purchase of capital assets	(23,790,013)
Proceeds from certificates of obligation, net	<u>15,767,591</u>
Net cash used in investing activities	<u>(21,132,537)</u>

Net decrease in cash and cash equivalents (2,818,751)

Cash and cash equivalents - beginning of year 2,899,244

Cash and cash equivalents - end of year \$ 80,493

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

Operating loss	\$ (64,499,915)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	2,456,334
Changes in operating assets and liabilities that provided (used) cash:	
Grants receivable	(1,382,691)
Other receivables	11,259,732
Prepaid expenses and other assets	(39,188)
Accounts payable	(585,900)
Cash overdraft	(139,083)
Salaries and benefits payable	85,254
Due to other governments	<u>2,890</u>
Net cash used in operating activities	<u>\$ (52,842,567)</u>

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

TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH, A COMPONENT UNIT OF TRAVIS COUNTY, TEXAS

NOTES TO FINANCIAL STATEMENTS YEAR ENDED SEPTEMBER 30, 2011

1. ORGANIZATION AND MISSION

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

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

Central Health is presented as a discrete component unit of Travis County (legally separate from Travis County), as the Travis County Commissioners’ Court approves Central Health’s tax rate and annual budget. Additionally, the Travis County Commissioners’ Court appoints four and one jointly appointed members of Central Health’s governing board. Travis County does not provide any funding to Central Health, hold title to any of Central Health’s assets, or have any rights to any surpluses of Central Health.

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

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

During fiscal year 2011, Central Health contributed \$1.7 million to Sendero to fund \$200,000 in working capital and \$1.5 million in capital to meet the minimum surplus requirement as defined by the Texas State Statute to file a Certificate of Authority. In addition, Central Health paid approximately \$2.2 million in expenses on behalf of Sendero to fund start-up costs incurred during fiscal year 2011. Sendero filed its Certificate of Authority on November 1, 2011 and is expected to begin operations on March 1, 2012.

Central Health's primary responsibility is to provide quality preventive, medical, hospital, and emergency care to the indigent and needy of Travis County and to others without the ability to pay in full. All activities conducted by Central Health are directly associated with the furtherance of this mission and are, therefore, considered to be operating activities.

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

Central Health provides patient care to the indigent population of Travis County through contracts with medical services providers and receives property taxes levied by Travis County for the provision of this care. Central Health has contracted with third parties to operate Central Health's two acute care hospitals with a total of 399 licensed beds. Central Health has also contracted with CommUnityCare to operate 21 health clinics (including one specialty clinic providing HIV/AIDS treatment services and two clinics that provide services to the homeless populations), and three dental clinics. Central Health is exempt from federal income taxes.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Method of Accounting - Central Health generally follows private-sector standards of accounting and financial reporting issued prior to December 1, 1989 to the extent that those standards do not conflict or contradict guidance of the Governmental Accounting Standards Board ("GASB") pronouncements.

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 assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows.

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

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

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

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

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

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

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

Statement of Cash Flows - For purposes of the statement of cash flows, Central Health considers temporary investments with original maturities of three months or less to be cash equivalents. Noncash investing activity included from the statement of cash flows consists of the following:

At September 30, 2011, Central Health incurred certain renovation and construction costs totaling \$319,839; these renovation and construction costs were disbursed subsequent to the year ended September 30, 2011.

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

Tobacco Settlement Revenue - Tobacco settlement revenue is the result of a settlement between various counties and hospital districts in Texas and the tobacco industry for tobacco-related health care cost. Central Health recognized \$1,641,354 associated with the settlement in the year ended September 30, 2011. Settlement revenues for fiscal year 2011 are based on the investment earnings of the tobacco settlement fund as administered by the Comptroller’s Office of the State of Texas. Central Health is unable to estimate the continuance or level of future distributions.

During the year ended September 30, 2011, Central Health budgeted and recorded its tobacco settlement revenue net of amounts paid to the Seton Healthcare Family (“Seton”) and to Travis County, which were \$683,402 and \$279,113, respectively. Such amounts represent their respective share of total local healthcare expenses claimed for the year ended September 30, 2011.

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.

Recently Issued Accounting Pronouncements - In November 2010, the GASB issued GASB Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*, effective for fiscal years beginning after June 15, 2012. The objective of GASB Statement No. 61 is to improve financial reporting for a governmental financial reporting entity by modifying certain requirements for inclusion of component units in the financial reporting entity. Management is still evaluating the effects that the full implementation of GASB Statement No. 61 will have on its financial statements for the year ended September 30, 2013, primarily as it relates to the reporting and disclosure of component units.

3. DEPOSITS AND INVESTMENTS

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

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

This collateral is held by the Federal Reserve Bank of New York, which in the case of default by JPMorgan Chase will act as agent for Central Health, in a fiduciary account held in the name of JPMorgan Chase and Central Health and pledged to Central Health. During fiscal year 2011, collateral coverage was more than the 105% of bank balances on all days during the year as required by policy. As of September 30, 2011, Central Health's bank balances in excess of federal depository insurance were fully collateralized.

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

Central Health is authorized to purchase, sell, and invest its funds and funds under its control in accordance with the Texas Public Funds Investment Act, Government Code Chapter 2256 and its subsequent amendments. During the fiscal period, investments consisted of U.S. government treasury securities, U.S. government agencies securities, commercial paper and participation in three local government investment pools (TexPool, TexSTAR and TexasTERM). The carrying amount of investments as of September 30, 2011, is displayed on the balance sheet as short-term investments.

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

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

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

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

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

As of September 30, 2011, Central Health had the following investments:

Type	Fair Value	Weighted Average Maturity (Days)
Local government investment pools	\$ 64,458,306	1
U.S. government agencies	62,019,190	720
Total fair value	<u>\$ 126,477,496</u>	
Portfolio weighted average maturity		354

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 year or less. Individual security types are limited as well, with the longest permitted maturity of three 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, 2011	Standard & Poor's Rating
Local government investment pools	AAAm
Federal Home Loan Mortgage Corporation	AA+
Federal Home Loan Bank	AA+
Federal Farm Credit Bank	AA+

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, 2011:		
TexPool	24%	60%
Other local government investment pools	27%	60%
U.S. government agencies	49%	75%

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, 2011, Central Health's investments which require disclosure are as follows:

	Fair Value	Percentage of Portfolio
Investments at September 30, 2011:		
Federal Home Loan Bank	\$ 15,974,880	13%
Federal Home Loan Mortgage Corporation	15,083,350	12%
Federal Farm Credit Bank	30,960,960	24%

4. GRANT RECEIVABLE

On October 6, 2010, Central Health received a Notice of Grant Award from the Health Resources and Services Administration of the U.S. Department of Health and Human Services that it had been awarded a \$12 million grant for the construction of the North Central Community Health Center ("NCCHC"). This grant will finance a significant portion of the estimated \$18 million construction cost of the NCCHC. At September 30, 2011, the grant receivable balance was \$1,382,691.

5. DISAGGREGATION OF RECEIVABLE BALANCES

Central Health's receivables, including the applicable allowances, are comprised of the following as of September 30, 2011:

	Taxes	Due from CommUnity- Care	Other	Total
Total	\$ 1,755,027	7,342,377	1,129,651	10,227,055
Less:				
Allowance for uncollectibles	(103,866)	-	-	(103,866)
Allowance for long-term collections	(1,293,242)	-	-	(1,293,242)
Total, net	<u>\$ 357,919</u>	<u>7,342,377</u>	<u>1,129,651</u>	<u>8,829,947</u>
Amounts not scheduled for collection during the subsequent year	<u>\$ -</u>	<u>4,000,000</u>	<u>-</u>	<u>4,000,000</u>

At September 30, 2011, the due from CommUnityCare balance of \$7,342,377 is comprised of \$3,342,377 in current assets and \$4,000,000 in noncurrent assets. At September 30, 2011, the other receivable balance is comprised of \$123,238 of accrued interest on investments and approximately \$1,000,000 in receivables from Seton.

6. CAPITAL ASSETS

Central Health's capital assets are comprised of the following as of September 30, 2011:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	\$ 10,345,124	-	-	10,345,124
Construction in progress	2,593,602	22,994,030	-	25,587,632
Total capital assets not being depreciated	<u>12,938,726</u>	<u>22,994,030</u>	<u>-</u>	<u>35,932,756</u>
Capital assets being depreciated:				
Building and improvements	91,286,390	242,938	-	91,529,328
Equipment and furniture	2,843,754	247,335	-	3,091,089
Total capital assets being depreciated	<u>94,130,144</u>	<u>490,273</u>	<u>-</u>	<u>94,620,417</u>
Less accumulated depreciation for:				
Building and improvements	(11,051,109)	(1,926,511)	-	(12,977,620)
Equipment and furniture	(919,075)	(529,823)	-	(1,448,898)
Total accumulated depreciation	<u>(11,970,184)</u>	<u>(2,456,334)</u>	<u>-</u>	<u>(14,426,518)</u>
Total capital assets being depreciated	<u>82,159,960</u>	<u>(1,966,061)</u>	<u>-</u>	<u>80,193,899</u>
Capital assets, net	<u>\$ 95,098,686</u>	<u>21,027,969</u>	<u>-</u>	<u>116,126,655</u>

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

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

7. LONG-TERM DEBT

The following is a summary of changes in long-term debt for the period ended September 30, 2011:

	Beginning Balance	Additions	Retirements	Ending Balance
Certificates of Obligation	\$ -	16,000,000	-	16,000,000
Costs of issuance	-	(232,409)	-	(232,409)
Total	\$ -	15,767,591	-	15,767,591

On September 20, 2011, Central Health issued \$16,000,000 in Certificates of Obligation with interest rates ranging from 0.5% to 4.25%. The net proceeds of \$15,767,591 (after payment of \$232,409 in underwriting fees, insurance and other costs) were deposited with the District’s investment accounts to provide payments for capital assets and future debt service payments.

Certificates of Obligation debt consists of the following at September 30, 2011:

Certificates of Obligation:

Series	Date of Issue	Amounts of Original Issue	Matures Through	Interest Rate	Outstanding at 9-30-11	Due Within One Year
2011	9-20-11	16,000,000	2026	0.50 - 4.25%	16,000,000	930,000

The annual principal installments for each of the outstanding issues vary each year. As of September 30, 2011, the debt service requirements of indebtedness to maturity are as follows:

Year Ended September 30,	Principal	Interest	Total
2012	930,000	487,230	1,417,230
2013	910,000	459,977	1,369,977
2014	920,000	449,949	1,369,949
2015	935,000	436,207	1,371,207
2016	950,000	418,805	1,368,805
2017 – 2021	5,170,000	1,691,858	6,861,858
2022 – 2026	6,185,000	659,722	6,844,722
Total	\$ 16,000,000	4,603,748	20,603,748

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

8. OPERATING LEASE WITH SETON

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

The lease provides that Seton will pay Central Health base or minimum rent, which in fiscal year 2011 was \$1,096,656, and further provides that Seton will pay additional rent under certain conditions. If Seton receives what the lease defines as “Program Payments” during a fiscal year, Seton is required to pay additional rent to Central Health in that fiscal year.

Program Payments are payments under the Disproportionate Share III (“DSH”) program, which was created in fiscal year 1992 by the State of Texas to access additional federal matching funds. These funds are distributed to selected hospitals that provide services to low-income and uninsured patients. Program Payments also include payments under the Public Upper Payment Limit (“UPL”) program, which was created in May 2002 with an effective date of July 2001. The Public UPL program uses federal matching funds to raise state Medicaid reimbursement rates to 100% of equivalent Medicare rates for certain public hospital systems. See Note 10 for further information on Central Health’s UPL programs.

Central Health recognizes all additional rent received as operating revenue in the period of receipt. In fiscal year 2011, Central Health received \$28,439,915 in additional rent from the operating lease with Seton. At September 30, 2011, Central Health’s investment in Brackenridge consists of land valued at \$8,013,662 and buildings and improvements valued at \$85,786,338 less accumulated depreciation of \$12,010,087.

Pursuant to the revised terms of the lease effective in fiscal year 2006, Central Health will reimburse Seton for services provided through three programs. Under the Charity Care Program, Central Health will reimburse Seton a maximum of \$3,545,000 annually (the “Annual Ceiling,” as adjusted each year by the Consumer Price Index) for providing medical care to the medically indigent; provided however, that Seton must first provide charity care in the amount of 4% of net revenues as required by State law. Central Health paid Seton \$3,890,697 in fiscal year 2011 under the Charity Care Program.

Under the Home Health Services Program, Central Health paid Seton \$250,000 for the year ended September 30, 2011 for home health services for the medically indigent of Travis County.

Under the terms of the letter agreement effective November 2006 and revised on August 8, 2008, the lease agreement with Seton was amended and Central Health no longer has responsibility for funding certain programs included in the original lease. Instead Central Health paid \$26,878,232 in fiscal year 2011 for the Private Upper Payment Limit program (see Note 10 for additional information on both the Public and Private UPL programs).

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

2012	\$	1,096,656
2013		1,096,656
2014		1,096,656
2015		1,096,656
2016		1,096,656
Thereafter		<u>10,169,904</u>
Total	\$	<u><u>15,653,184</u></u>

9. LEASE AGREEMENT WITH THE UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON (“UTMB”)

Effective October 1, 2004, Central Health assumed the rights and obligation from the City of Austin related to the lease agreement with UTMB. Under the terms of the agreement, UTMB will operate Austin Women’s Hospital for an initial term of five years through January 2009 with an option to renew. Central Health has exercised three one-year options to renew the lease, which now runs through January 2012. For the year ended September 30, 2011, lease revenue of \$58,740 was recognized under this lease. Pursuant to the terms of the lease, Central Health paid UTMB \$3,900,000 for the year ended September 30, 2011 for charity care provided at Austin Women’s Hospital.

At September 30, 2011, Central Health’s investment in the Austin Women’s Hospital consists of buildings and improvements valued at \$3,400,000 less accumulated depreciation of \$476,000.

On August 25, 2011, UTMB notified Central Health that it would not renew the agreement upon its expiration in 2012. The future minimum lease payments to be received from UTMB through January 2012 are \$19,580.

10. PRIVATE UPPER PAYMENT LIMIT PROGRAM

The Private Upper Payment Limit (“Private UPL”) program was implemented in April 2007, with an effective date of June 11, 2005. The Private UPL program uses federal matching funds to raise the state Medicaid reimbursement rate to 100% of equivalent Medicare rates for certain private hospitals. Central Health funds the intergovernmental transfer (“IGT”), which the federal government matches. The entire amount (the IGT and the matching funds) is then paid to six private hospitals in Travis County. These hospitals agreed to use their best efforts to reduce uninsured care in Travis County by qualified eligible individuals for Medicaid coverage and services. Central Health records the amount it funds as an IGT as a healthcare delivery expense in the year in which the IGT is made. During the year ended September 30, 2011, Central Health paid \$26,878,232 for IGTs made under the Private UPL program.

The statewide implementation of Medicaid managed care approved in this year's 82nd Texas legislative session will effect changes to both the Public and Private UPL programs. Under an 1115 Medicaid waiver negotiated between the Texas Health and Human Services Commission and the federal Centers for Medicare and Medicaid Services, both UPL programs will be replaced with supplemental payment methodologies through which federal matching funds are distributed to participating hospitals. Fiscal year 2012 will be a transition year in which supplemental payments will be made based primarily on the amounts of public or private UPL funds received by hospitals in the prior year, followed by a five-year transition period, in which payments will be made increasingly based on performance and service metrics. Central Health expects to receive approximately the same amount of revenue in additional rent from Seton for the waiver program that it received in fiscal year 2011 through Program Payments and to likewise incur approximately the same amount of expense in 2012 for the waiver program that it incurred this year for the Private UPL program. Future revenue and expenses for fiscal years 2013 and beyond is not estimable at this time.

11. INTERLOCAL AGREEMENT WITH THE CITY OF AUSTIN

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

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

12. 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, 2010, upon which the October 2010 levy was based, was \$94,452,442,295. Central Health levied taxes based on a tax rate of \$0.0719 per \$100 of assessed valuation.

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 12. For the year ended September 30, 2011, \$431,067 is included in other purchased goods and services for the legal and other services. For the year ended September 30, 2011, \$424,214 is included in tax assessment and collection expense for the tax collections services. At September 30, 2011, \$81,154 is included in due to other governments related to this agreement.

Central Health also entered into several leases of mixed-use facilities from the County for primary care (clinic) sites that, pursuant to State law, did not transfer to Central Health. The mixed-use facility leases may remain in place until February 28, 2019, if not terminated earlier by either party. Rental expense to Central Health is comprised only of the operating and maintenance expense for each facility.

14. 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.

15. 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, 2011, Central Health contributed \$234,759 to the plan under Central Health's retirement program and contributed an additional \$37,886 to the plan under Central Health's deferred compensation matching program.

16. HEALTH CARE COVERAGE

During the year ended September 30, 2011, employees of Central Health were covered by a health insurance plan. On average, Central Health contributed \$619 per month per employee to the plan during the year ended September 30, 2011. In addition, Central Health contributed a portion of the cost of family coverage, if applicable, and employees, at their option, authorized payroll withholdings to pay contributions or premiums for dependents. All contributions were paid to a licensed insurer. The plan was documented by a contractual agreement.

17. OTHER OPERATING LEASES

Central Health leases a clinic facility and other equipment under noncancelable long-term leases that expire at various dates through April 2014. The clinic facility lease requires additional payments for common area maintenance and real estate taxes. Rent expense for the year ended September 30, 2011 was \$206,472 which includes \$9,676 of rent expense for Sendero’s facility. Future minimum rental payments as of September 30, 2011 are as follows:

2012	333,801
2013	274,361
2014	<u>55,315</u>
Total	<u>\$ 663,477</u>

18. 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, 2011, 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.

19. COMMITMENTS AND CONTINGENCIES

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

20. SUBSEQUENT EVENTS

In October 2011, Central Health made an additional investment of \$12.5 million in Sendero Health Plans, Inc. to provide it with additional risk-based capital as requested by the Texas Department of Insurance. With the \$1.5 million in Sendero paid-in capital shown on Central Health’s statement of net assets at September 30, 2011, Central Health’s total investment in Sendero as of October 31, 2011 is \$14 million. See Note 1 for additional information on Sendero

FEDERAL AWARDS SECTION



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

The Board of Managers of
Travis County Healthcare District:

We have audited the financial statements of Travis County Healthcare District (doing business as and hereinafter referred to as “Central Health”), a component unit of Travis County, Texas, as of and for the year ended September 30, 2011, which collectively comprise Central Health’s basic financial statements and have issued our report thereon dated January 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of Central Health is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Central Health’s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Central Health’s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Central Health’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 combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of Central Health’s financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

*“A Registered Investment Advisor”
This firm is not a CPA firm*

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Central Health's financial statements are free of 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*.

This report is intended solely for the information and use of the Board of Managers, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maxwell Socha + Ritter LLP

January 16, 2012



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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

The Board of Managers of
Travis County Healthcare District:

Compliance

We have audited Travis County Healthcare District's (doing business as and hereinafter referred to as "Central Health"), a component unit of Travis County, Texas, compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Central Health's major federal programs for the year ended September 30, 2011. Central Health's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Central Health's management. Our responsibility is to express an opinion on Central Health's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Central Health's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Central Health's compliance with those requirements.

In our opinion, Central Health complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

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This firm is not a CPA firm

Internal Control Over Compliance

Management of Central Health is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Central Health's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Central Health's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Managers, management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Maxwell Soche + Ritter LLP

January 16, 2012

**TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH,
A COMPONENT UNIT OF TRAVIS COUNTY, TEXAS**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2011**

<u>Federal Grantor/ Pass-Through Grantor/ Program Title</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Expenditures</u>
<u>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
<u>Direct programs:</u>			
Affordable Care Act - Capital Development Grant	93.526	11-3984071	\$ 12,000,000
ARRA - Capital Improvement Program	93.703	09-3981152	<u>414,367</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 12,414,367</u></u>

The accompanying notes are an integral part of this schedule.

**TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH,
A COMPONENT UNIT OF TRAVIS COUNTY, TEXAS**

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED SEPTEMBER 30, 2011**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

General - The accompanying schedule of expenditures of federal awards presents all federal expenditures of the Travis County Healthcare District (doing business as and hereinafter referred to as “Central Health”), a component unit of Travis County, Texas (“Travis County”).

Basis of Accounting - The expenditures on the accompanying schedule of expenditures of federal awards are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenue is recognized in the accounting period in which they are earned, and expenditures in the accounting period in which the related liability is incurred, regardless of the timing of related cash flows. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the financial statements.

Pre-Award Costs - The expenditures under the Affordable Care Act – Capital Development Grant on the accompanying schedule of expenditures of federal awards includes pre-award costs dating back to March 23, 2010 as deemed allowable per the notice of grant award from the Department of Health and Human Services and dated October 1, 2010. Pre-award federal expenditures for the period March 23, 2010 through September 30, 2010 were \$1,386,804. Federal expenditures for the year ended September 30, 2011 were \$10,613,196.

**TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH,
A COMPONENT UNIT OF TRAVIS COUNTY, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2011**

SECTION I - SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS

Type of auditors' report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Noncompliance material to financial statements noted? yes no

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? yes no

Significant deficiency(ies) identified that are not considered to be material weakness(es)? yes none reported

Type of auditors' report issued on compliance for major programs:

Affordable Care Act - Capital Development Grant Unqualified
ARRA - Capital Improvement Program Unqualified

Any audit findings disclosed that are required to be reported with section 510(a) of Circular A-133? yes no

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
93.526	Affordable Care Act – Capital Development Grant
93.703	ARRA – Capital Improvement Program

Dollar threshold used to distinguish between type A and type B programs: N/A

Auditee qualified as low-risk auditee? yes no

**TRAVIS COUNTY HEALTHCARE DISTRICT dba CENTRAL HEALTH,
A COMPONENT UNIT OF TRAVIS COUNTY, TEXAS**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2011**

SECTION II - FINANCIAL STATEMENT FINDINGS

No findings or questioned costs required to be reported in accordance with Government Auditing Standards for the year ended September 30, 2011.

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No findings or questioned costs required to be reported in accordance with section 510(a) of OMB Circular A-133 for the year ended September 30, 2011.