TRAVIS COUNTY HEALTHCARE DISTRICT, A COMPONENT UNIT OF TRAVIS COUNTY, TEXAS

Financial Statements for the Year Ended September 30, 2009 and Independent Auditors' Report

MAXWELL LOCKE & RITTER

**TRAVIS COUNTY HEALTHCARE DISTRICT,
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 (the "District"), a component unit of Travis County, Texas, and the discretely presented component unit as of September 30, 2009, 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 the District'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 the District, as of September 30, 2009, 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 our report dated January 14, 2010, on our consideration of the District'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 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.

The management's discussion and analysis on pages 3 through 9 is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Maxwell Locke + Ritter LLP

January 14, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the Travis County Healthcare District's (the "District") (formerly the Travis County Hospital District) financial report presents background information and management's analysis of the District's financial results for the fiscal year ended September 30, 2009. Please read this section in conjunction with the District's financial statements, which begin on page 10.

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 Travis County Commissioners' Court, the District changed its name from Travis County Hospital District to Travis County Healthcare District to better reflect the activities of the District.

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 the district. The law stipulates that creation of the 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 District.

The formation of the District 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.

The District 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 the District. The 2009 tax levy for the District is $0.0679 per $100 valuation.

The law allows the District to create a health maintenance organization to provide or arrange for health care services. Additionally, the District may create a charitable organization to develop resources for the District 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 the District, Travis County and the City of Austin, Texas ("City of Austin") transferred the portion of their tax bases dedicated to healthcare to the District. 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 the District, the tax burden was distributed equally across all residents.

In addition to the tax base, the District 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 the District and the City. In June 2007, Seton opened the new Dell Children's Medical Center of Central Texas which is not owned by the District. 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, the District 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 the District 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 the District'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 the District upon resolution of the FQHC status of CommUnityCare and the District, including the David Powell Clinic and the Montopolis Clinic.

Financial Highlights

- The District's net assets increased $11.5 million, a 6% increase over prior year net assets.
- During the year, the District's total operating revenues were $26.3 million and operating expenses were $85.9 million. Nonoperating revenues, comprised primarily of property tax, were $71.1 million, net of nonoperating expenses.
- To carry out its fiscal responsibility to the taxpayers, the District maintained reserve funds to protect its financial security and operational stability in consideration of the risks it faces. In fiscal year 2008, the District 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 2009. The District's reserve policy will continue to be reviewed annually in association with the budget process.
- Services that were expanded or initiated in fiscal year 2009 are as follows:
  - CommUnityCare had 203,766 patient encounters during the year, a 5.8% increase over fiscal year 2008.
  - Average monthly full benefit enrollment in the Medical Assistance Program was 11,851, an increase of 32% over fiscal year 2008.
  - The District funded 17 inpatient mental health beds to assist with over-utilization of the Austin State Hospital; the District funded 10 beds in fiscal year 2008.
  - The District funded a total of 17,899 primary care visits through community providers such as El Buen Samaritano, people's Community Clinic, Lone Star Circle of Care, and Project Access – this represents a 67% increase in the number of non-CommUnityCare primary care visits.

Financial Statements

The District's financial statements are prepared on the accrual basis of accounting and present the District'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 the District's financial position at the end of the year and report the District's net assets and changes in them as a result of the District's revenues and expenses for the year. The term "net assets" represents the difference between assets, or the District's investment in resources, and liabilities, or the District'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 the District'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 the District itself (known as the primary government), but also a legally separate entity known as a component unit. CommUnityCare is included as a discretely presented component unit as there is some financial accountability by CommUnityCare to the District. Additional information regarding the component unit can be found in Note 1 of the notes to the financial statements.

Statement of Net Assets

The following table summarizes the District's assets, liabilities and net assets as of September 30, 2009 and 2008:

TABLE 1
Condensed Statement of Net Assets

	2009	2008	% Fluctuation
Current and other assets	$ 104,661,836	$ 121,543,220	(14%)
Noncurrent assets	25,541,453	-	100%
Capital assets	94,736,925	91,563,569	3%
Total assets	224,940,214	213,106,789	6%
Current liabilities	16,509,719	16,192,428	2%
Net assets:			
Invested in capital assets	94,736,925	91,563,569	3%
Unrestricted	113,693,570	105,350,792	8%
Total net assets	$ 208,430,495	$ 196,914,361	6%

As shown in Table 1, net assets were $208.4 million at September 30, 2009 and $196.9 million at September 30, 2008. The change in net assets of $11.5 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 the District's revenues and expenses and changes in net assets during the years ended September 30, 2009 and 2008:

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

	2009	2008	% Fluctuation
Operating revenues:			
DSH/UPL program	$ 25,129,307	$ 28,168,429	(11%)
Operating lease revenue	1,155,396	1,155,396	-
Total operating revenues	26,284,703	29,323,825	(10%)
Operating expenses:			
Health care delivery	78,274,127	69,728,485	12%
Salaries and benefits	3,927,428	1,904,719	106%
Other purchased goods and services	1,613,167	1,454,381	11%
Depreciation	2,069,504	1,891,569	9%
Total operating expenses	85,884,226	74,979,154	14%
Operating loss	(59,599,523)	(45,655,329)	30%
Nonoperating revenues, net:			
Net ad valorem tax revenue	64,000,794	58,502,840	9%
Net tobacco settlement revenue	2,573,184	2,993,571	(14%)
Investment income	2,774,658	3,733,173	(26%)
Other revenue	1,767,021	6,250	28172%
Total nonoperating revenues, net	71,115,657	65,235,834	9%
Change in net assets	11,516,134	19,580,505	(41%)
Total net assets – beginning of year	196,914,361	177,333,856	11%
Total net assets – end of year	$ 208,430,495	$ 196,914,361	5%

The District's operating revenues were $26.3 million for the year ended September 30, 2009, comprised of $25.1 million in Disproportionate Share III ("DSH") and Upper Payment Limit ("UPL") revenue and $1.2 million in rent revenue relating to University Medical Center Brackenridge and Austin Women's Hospital.

The District's operating loss was $59.6 million for the year ended September 30, 2009. The District 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 $71.1 million for the year ended September 30, 2009, comprised of net property taxes of $64.0 million, net tobacco settlement revenue of $2.6 million, investment income of $2.8 million and other revenue (transfer of property from the City of Austin on March 1, 2009, as described above) of $1.8 million.

Capital Assets

With the creation of the District, 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 the District. Travis County conveyed medical equipment used in the health care clinics to the District. The City of Austin donated an office building to the District which the District uses for its headquarters.

On March 1, 2009, other assets formerly owned by the City of Austin were transferred pursuant to State law to the District upon resolution of the FQHC status of CommUnityCare and the District, 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 the District's capital assets at September 30, 2009 and 2008.

TABLE 3
Capital Assets

	2009	2008	% Fluctuation
Land	$ 10,345,124	$ 8,497,335	22%
Buildings and improvements	91,177,877	90,052,494	1%
Equipment and furniture	2,451,077	462,426	430%
Construction in progress	398,329	117,291	240%
Subtotal	104,372,407	99,129,546	6%
Less accumulated depreciation	(9,635,482)	(7,565,978)	27%
Total capital assets, net	$ 94,736,925	$ 91,563,568	2%

Current Budget

Annually, the District 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 budget as compared to fiscal year 2009 actual amounts.

TABLE 4
Budget vs. Actual

	Budget 2009	Actual 2009	Favorable (Unfavorable) Variance
Operating revenues:			
DSH/UPL program	$ 17,488,953	25,129,307	7,640,354
Operating lease revenue	1,155,396	1,155,396	-
Total operating revenues	18,644,349	26,284,703	7,640,354
Operating expenses:			
Health care delivery	81,323,786	78,274,127	3,049,659
Salaries and benefits	5,048,166	3,927,428	1,120,738
Other purchased goods and services	5,760,747	1,613,167	4,147,580
Depreciation	2,302,636	2,069,504	233,132
Total operating expenses	94,435,335	85,884,226	8,551,109
Operating loss	(75,790,986)	(59,599,523)	16,191,463
Nonoperating revenues (expenses):			
Ad valorem tax revenue	63,597,727	64,717,711	1,119,984
Tax assessment and collection expense	(753,471)	(716,917)	36,554
Tobacco settlement revenue	2,970,000	2,573,184	(396,816)
Investment income	2,463,415	2,774,658	311,243
Other revenue	-	1,767,021	1,767,021
Total nonoperating revenues, net	68,277,671	71,115,657	2,837,986
Change in net assets	$ (7,513,315)	11,516,134	19,029,449

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 $7.6 million and this increase is due to monies received related to the DSH and UPL programs.

Actual operating expenses were under budget by $8.5 million due to favorable variances in other purchased goods and services, healthcare delivery, and salaries and benefits. As compared to budget, the District experienced a favorable variance of $19 million.

Economic Conditions and Plan for Fiscal Year 2010

In planning for fiscal year 2010, there were a number of factors the District needed to consider, starting with the poor economy at the local, state and federal levels. Issues that the District will need to monitor throughout fiscal year 2010 include the following:

- Continued collaboration with other entities in Travis County who affect the level and quality of healthcare provided to the uninsured and underinsured.
- The continuing increase in the number of uninsured and working poor and the lack of access to primary and specialty care for this growing population.
- The outcome of national healthcare reform efforts now underway.
- Future funding available under the DSH and UPL programs and the effect of healthcare reform on this funding.
- The continuing expansion of medical education here in Austin.

The 2010 tax rate of $0.0674 per $100 valuation decreased from $0.0679 in 2009.

Contacting District Financial Management

The financial report is designed to provide the taxpayers and the District's customers, creditors, and suppliers with a general overview of the District's finances and to demonstrate the District's accountability for the funds it receives. If you have questions about this report or need additional financial information, contact the District'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,
A COMPONENT UNIT OF TRAVIS COUNTY, TEXAS

STATEMENTS OF NET ASSETS
SEPTEMBER 30, 2009

	Primary Government	Component Unit
	Governmental Activities	CommUnityCare
ASSETS		
Current assets:		
Cash and cash equivalents	$ 209,195	$ 4,385,905
Restricted cash and cash equivalents	12,738,733	-
Short-term investments	86,438,890	-
Ad valorem taxes receivable, net of allowance for uncollectible taxes of $126,696	347,393	-
Accounts receivable, net of allowance for doubtful amounts of $3,916,747	-	6,361,473
Grants receivable	-	1,595,197
Other receivables	4,853,189	-
Inventory	-	110,898
Prepaid expenses	74,436	340,413
Total current assets	104,661,836	12,793,886
Noncurrent assets:		
Short-term investments restricted for capital acquisition	21,541,453	-
Long-term receivables	4,000,000	-
Capital assets:		
Land	10,345,124	-
Buildings and improvements	91,177,877	-
Equipment and furniture	2,451,077	210,338
Construction in progress	398,329	-
Less accumulated depreciation	(9,635,482)	(2,658)
Total capital assets, net	94,736,925	207,680
Total noncurrent assets	120,278,378	207,680
Total assets	224,940,214	13,001,566
LIABILITIES		
Current liabilities:		
Accounts payable	3,376,681	1,554,419
Private UPL payable	12,738,733	-
Salaries and benefits payable	354,539	2,142,060
Accrued retention bonus	-	350,078
Due to other governments	39,766	-
Other accrued liabilities	-	256,312
Current portion due to Travis County Healthcare District	-	4,322,187
Refundable advances - grants and contracts	-	129,047
Total current liabilities	16,509,719	8,754,103
Long-term portion due to Travis County Healthcare District	-	4,000,000
Total current and long-term liabilities	16,509,719	12,754,103
NET ASSETS		
Invested in capital assets	94,736,925	-
Unrestricted	113,693,570	247,463
Total net assets	$ 208,430,495	$ 247,463

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

TRAVIS COUNTY HEALTHCARE DISTRICT,
A COMPONENT UNIT OF TRAVIS COUNTY, TEXAS

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2009

	Primary Government	Component Unit
	Governmental Activities	CommUnityCare
Operating revenues:		
DSH/UPL program	$ 25,129,307	$ -
Operating lease revenue	1,155,396	-
Patient service revenue	-	8,143,994
Grant revenue	-	3,153,889
Revenue received from Travis County Healthcare District	-	20,390,451
Total operating revenues	26,284,703	31,688,334
Operating expenses:		
Health care delivery	78,274,127	9,922,621
Salaries and benefits	3,927,428	20,497,038
Other purchased goods and services	1,613,167	1,018,554
Depreciation	2,069,504	2,658
Total operating expenses	85,884,226	31,440,871
Operating income (loss)	(59,599,523)	247,463
Nonoperating revenues (expenses):		
Ad valorem tax revenue	64,717,711	-
Tax assessment and collection expense	(716,917)	-
Tobacco settlement revenue, net	2,573,184	-
Investment income	2,774,658	-
Other revenue	1,767,021	-
Total nonoperating revenues, net	71,115,657	-
Change in net assets	11,516,134	247,463
Total net assets - beginning of year	196,914,361	-
Total net assets - end of year	$ 208,430,495	$ 247,463

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

TRAVIS COUNTY HEALTHCARE DISTRICT,
A COMPONENT UNIT OF TRAVIS COUNTY, TEXAS

STATEMENTS OF CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2009

	2009
Cash flows from operating activities:	
Cash received from DSH/UPL program, net	$ 94,365,329
Cash payments for DSH/UPL program	(69,236,022)
Cash payments for private UPL program	(22,834,481)
Cash received from operating leases	1,155,396
Cash payments for goods and services	(55,476,578)
Cash payments to employees	(3,714,148)
Net cash used in operating activities	(55,740,504)
Cash flows from noncapital financing activities:	
Ad valorem taxes received	64,648,764
Payments for tax assessment and collection	(716,917)
Tobacco settlement received, net	2,573,184
Other nonoperating revenue received	326
Payments to CommUnityCare, net	(8,322,187)
Net cash provided by noncapital financing activities	58,183,170
Cash flows from investing activities:	
Receipts of interest income	212,360
Net proceeds from sale of investment pools	11,085,861
Purchase of certificates of deposit	(200,000)
Purchase of investment securities	(19,000,000)
Proceeds from maturities of investment securities	12,000,000
Purchase of capital assets	(3,459,536)
Non-cash capital assets conveyed	1,766,695
Net cash provided by investing activities	2,405,380
Net increase in cash and cash equivalents	4,848,046
Cash and cash equivalents - beginning of year	8,099,882
Cash and cash equivalents - end of year	$ 12,947,928

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (59,599,523)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	2,069,504
Changes in operating assets and liabilities that provided (used) cash:	
Due from other governments	986,144
Other receivables	558,125
Prepaid expenses	(72,046)
Accounts payable	(4,560,235)
Private UPL payable	4,684,135
Salaries and benefits payable	213,280
Due to other governments	(19,888)
Net cash used in operating activities	$ (55,740,504)

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

1. ORGANIZATION AND MISSION

Travis County Healthcare District (the "District"), 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 the District, 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.

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

The Central Texas Community Health Centers, Inc., doing business as CommUnityCare, is presented in this report as a discrete component unit of the District. CommUnityCare is legally separate from the District, but the District 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 the District's constituents, the District has the ability to access a majority of the economic resources of CommUnityCare, and those resources are significant to the District. Accordingly, CommUnityCare is presented in this report as a discrete component unit of the District.

The District's primary responsibility is to provide quality preventive, medical, hospital, and emergency care to the indigent and needy of Travis County and to others with the ability to pay. All activities conducted by the District are directly associated with the furtherance of this mission and are, therefore, considered to be operating activities.

On October 1, 2004, the District 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 the District, including title to the land and buildings of Brackenridge/Children's Hospital 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 the District. Certain assets associated with the Federally Qualified Health Centers ("health clinics") of the City of Austin and Travis County also transferred to the District.

The District provides patient care to the indigent population of Travis County and receives property taxes levied by Travis County for the provision of this care. The District has contracted with third-parties to operate the District's two acute care hospitals with a total of 399 licensed beds. The District has also contracted with the Central Texas Community Health Centers, Inc. (doing business as "CommUnityCare"), a related entity whose financial statements are discretely presented in this report, to operate 18 health clinics (including one specialty clinic providing HIV/AIDS treatment services and two clinics that provide services to the homeless populations), three dental clinics, and one mobile dental clinic. The District 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 - Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed by the District 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,* the District'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.

The statement of net assets requires that total net assets be reported in three components: (a) invested in capital assets, net of related debt, (b) restricted, and (c) unrestricted.

- "Invested in capital assets, net of related debt" consists of capital assets, including restricted capital assets, net of accumulated depreciation, reduced by the amount outstanding for any bonds, notes, or other financing liabilities that were incurred related to the acquisition, construction, or improvement of the capital assets.
- "Restricted net assets" consists of assets that are restricted as to use by external factors such as debt covenants, grantors, contributors, or laws or regulations of other governments or legislation.
- "Unrestricted net assets" consists of net assets that do not meet the definitions above for "invested in capital assets, net of related debt" or "restricted net assets."

Cash and Cash Equivalents - The District 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. The District includes expenditures for new facilities and equipment and expenditures 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 - The District 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.

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 held by the District. Nonoperating revenues consist of those revenues that are related to financing and investing types of activities and result from nonexchange transactions or investment income.

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, collection expenses, and appraisal fees. The District levies a tax as provided under state law with the approval of Travis County Commissioners' Court. The taxes are collected by the Travis County Tax Assessor-Collector and are remitted to the District 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 the District 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. The District recognized $2,573,184 associated with the settlement in the year ended September 30, 2009. Settlement revenues for fiscal year 2009 are based on the investment earnings of the tobacco settlement fund as administered by the Comptroller's Office of the State of Texas. The District is unable to estimate the continuance or level of future distributions.

During the year ended September 30, 2009, the District budgeted and recorded its tobacco settlement revenue net of amounts paid to the Daughters of Charity Health Services of Austin ("Seton") and to Travis County, which were $1,796,260 and $649,444, respectively. Such amounts represent their respective share of total local healthcare expenditures claimed for the year ended September 30, 2009.

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.

3. DEPOSITS AND INVESTMENTS

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

The District's depository agreement with JPMorgan Chase Bank requires collateralization with a fair market value equal to at least 102% of District funds in excess of $250,000 on deposit in the bank. All of the pledged collateral for the District'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 CMO's 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 the District, in a fiduciary account held in the name of JPMorgan Chase and the District and pledged to the District. During fiscal year 2009, there was one instance in January 2009 where the bank balances were not fully collateralized at all times. As of September 30, 2009, the District'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.

The District 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, 2009, is displayed on the balance sheet as short-term investments.

The District'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.

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.

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 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, 2009, the District had the following investments:

Type	Fair Value	Weighted Average Maturity (Days)
Local government investment pools	$ 57,304,703	1
U.S. government agencies	50,475,640	277
Certificate of deposit	200,000	155
Total fair value	$ 107,980,343	
Portfolio weighted average maturity		129

Interest Rate Risk - In accordance with its investment policy, the District 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, the District requires AA by Moody's Investors Service or Standard & Poor's Corporation. 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. The District'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. The District does not have credit limits on government agency securities. The District's investments in government agencies carry the implicit guarantee of the U.S. government. The District's investment policy requires that certificates of deposits be either federally insured or collateralized.

Investments at September 30, 2009	Standard & Poor's Rating
Local government investment pools	AAAm
Federal National Mortgage Association	AAA
Federal Home Loan Mortgage Corporation	AAA
Federal Home Loan Bank	AAA
Federal Farm Credit Bank	AAA

Concentration of Credit Risk - Concentration of credit risk is the risk of loss attributable to the magnitude of investments in a single issuer. The District'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, 2009:		
TexPool	20%	60%
Other local government investment pools	33%	60%
U.S. government agencies	47%	75%

Information regarding investments in any one issuer that represents five percent or more of the District total investments must be disclosed under GASB Statement No. 40, excluding investments issued or explicitly guaranteed by the U.S. government. At September 30, 2009, the District's investments which require disclosure are as follows:

	Fair Value	Percentage of Portfolio
Investments at September 30, 2009:		
Federal National Mortgage Association	$ 18,562,500	17%
Federal Home Loan Mortgage Corporation	12,626,880	12%
Federal Home Loan Bank	19,286,260	18%

4. DISAGGREGATION OF RECEIVABLE BALANCES

The District's receivables, including the applicable allowances, are comprised of the following as of September 30, 2009:

	Taxes	Due from CommUnity-Care	Other	Total
Total	$ 1,371,777	8,322,187	531,002	10,224,966
Less:				
Allowance for uncollectibles	(126,696)	-	-	(126,696)
Allowance for long-term collections	(897,688)	-	-	(897,688)
Total, net	$ 347,393	8,322,187	531,002	9,200,582
Amounts not scheduled for collection during the subsequent year	$ 484,871	4,000,000	-	4,484,871

At September 30, 2009, the due from CommUnityCare balance of $8,322,187 is comprised of $4,322,187 in current assets and $4,000,000 in noncurrent assets. At September 30, 2009, the other receivable balance is comprised of $531,002 of accrued interest on investments.

5. CAPITAL ASSETS

The District's capital assets are comprised of the following as of September 30, 2009:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 8,497,335	1,847,789	-	10,345,124
Construction in progress	117,291	281,038	-	398,329
Total capital assets not being depreciated	8,614,626	2,128,827	-	10,743,453
Capital assets being depreciated:				
Building and improvements	90,052,494	1,125,383	-	91,177,877
Equipment and furniture	462,426	1,988,651	-	2,451,077
Total capital assets being depreciated	90,514,920	3,114,034	-	93,628,954
Less accumulated depreciation for:				
Building and improvements	(7,298,172)	(1,862,482)	-	(9,160,654)
Equipment and furniture	(267,806)	(207,022)	-	(474,828)
Total accumulated depreciation	(7,565,978)	(2,069,504)	-	(9,635,482)
Total capital assets being depreciated	82,948,942	(1,044,530)	-	83,993,472
Capital assets, net	$ 91,563,568	3,173,357	-	94,736,925

With the creation of the District, 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 the District. Travis County conveyed medical equipment used in the health care clinics to the District. The City of Austin also donated an office building to the District. 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 the District 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 the District were deeded from the City to the District. The District recorded an increase of $1,570,079 in nonoperating revenue for the fair (appraised) value of these assets in fiscal year 2009.

6. OPERATING LEASE WITH SETON

Effective October 1, 2004, the District 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 Brackenridge/Children's Hospital 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. In June 2007, Seton opened the new Dell Children's Medical Center of Central Texas which is not owned by the District.

At September 30, 2009, the District'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 $8,326,013. For the year ended September 30, 2009, lease revenue of $1,096,656 was recognized under this lease.

Pursuant to the revised terms of the lease, the District will reimburse Seton for services provided through three programs. Under the Charity Care Program, the District will reimburse Seton a maximum of $3,817,304 annually 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. The District paid Seton $3,817,304 in fiscal year 2009 under the Charity Care Program.

Under the Home Health Services Program, the District paid Seton $250,000 for the year ended September 30, 2009, 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 the District no longer has responsibility for funding the certain programs included in the original lease. Instead the District paid $27,518,616 for the private Upper Payment Limit program (see Note 9).

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

2010	$ 1,096,656
2011	1,096,656
2012	1,096,656
2013	1,096,656
2014	1,096,656
Thereafter	12,363,216
Total	$ 17,846,496

7. LEASE AGREEMENT WITH THE UNIVERSITY OF TEXAS MEDICAL BRANCH AT GALVESTON ("UTMB")

Effective October 1, 2004, the District 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. The District has exercised two one-year options to renew the lease, which now runs through January 2011. For the year ended September 30, 2009, lease revenue of $58,740 was recognized under this lease. Pursuant to the terms of the lease, the District paid UTMB $3,877,048 for the year ended September 30, 2009 for charity care provided at Austin Women's Hospital.

At September 30, 2009, the District's investment in Austin Women's Hospital consists of buildings and improvements valued at $3,400,000 less accumulated depreciation of $340,000.

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

2010	$ 58,740
2011	19,580
Total	$ 78,320

8. DISPROPORTIONATE SHARE III AND UPPER PAYMENT LIMIT PROGRAMS

The Disproportionate Share III ("DSH") program 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. According to the DSH program guidelines, the District may use the funds for the benefit of the indigent in either the immediate period or future periods.

The Upper Payment Limit ("UPL") program was created in May 2002 with an effective date of July 2001. The UPL program uses federal matching funds to raise state Medicaid reimbursement rates to 100% of equivalent Medicare rates for certain public hospital systems.

The District recognizes all funds received under the DSH and UPL programs as operating revenues in the period of receipt of the funds. A portion of the DSH and UPL payments received are due to Seton under the operating lease discussed in Note 6. This payment is to be reduced by the charity care payment to UTMB.

During the year ended September 30, 2009, the District paid $14,946,828 to Seton. The DSH/UPL program revenue of $25,129,307 in fiscal year 2009 is net of the $14,946,828 paid to Seton.

9. 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. The District 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. During the year ended September 30, 2009, the District expensed $27,518,616 for payments under the Private UPL program which is included in health care delivery expense. As of September 30, 2009, $12,738,733 is included in private UPL payable.

10. INTERLOCAL AGREEMENT WITH THE CITY OF AUSTIN

Effective October 1, 2004, the District entered into an agreement with the City of Austin to operate the Federally Qualified Health Centers and administer MAP which were previously the responsibility of the City of Austin and Travis County. The agreement term was for one year with annual renewal possibility for four years. Under the agreement, payments were due monthly from the District.

The agreement was in place throughout fiscal year 2008 but ended on February 28, 2009, at which time the Federally Qualified Health Center status was granted jointly to the District and CommUnityCare, and CommUnityCare began to operate the clinic system as a not-for-profit 501 (c)(3) corporation, as discussed in Note 1.

For the five-month period ended February 28, 2009, the District recorded $17,564,000 of health care delivery expense related to this agreement. Any excess of revenues over expenses of the clinic operations is due to the District at the end of the agreement term. At September 30, 2008, the District had recorded a receivable from the City of Austin of $981,249, which amount was paid to the District in May 2009, net of amounts deducted for reimbursement of inventory. Any amounts owed by one party to the other for the five-month period ended on February 28, 2009 will be paid by January 31, 2010. The District cannot now reasonably estimate how much, if any, will be owed by either party.

Effective March 1, 2009, the District entered into an agreement with the City of Austin under which the City will provide certain close-out and post-transition services to the District. The District also entered into an interlocal agreement with the City under which the District will reimburse the City for emergency medical transport services provided to the District's Medical Assistance Program enrollees.

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

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 the District. Under the Code, the District 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 the District, 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, 2008, upon which the October 2008 levy was based was $95,576,657,141. The District levied taxes based on a tax rate of $0.0679 per $100 of assessed valuation.

12. INTERLOCAL AGREEMENTS WITH TRAVIS COUNTY

The District entered into an interlocal agreement with Travis County in which Travis County provides legal and other services for the District along with the tax collections services discussed in Note 11. For the year ended September 30, 2009, $344,944 is included in other purchased goods and services for the legal and other services. For the year ended September 30, 2009, $376,297 is included in tax assessment and collection expense for the tax collections services. At September 30, 2009, $39,766 is included in due to other governments related to this agreement.

During fiscal year 2006, the District entered into an interlocal agreement with Travis County in which Travis County provides supplemental dental, life, and disability insurance. For the year ended September 30, 2009, fees of $11,870 were included in other purchased goods and services related to this agreement.

The District 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 the District. The mixed-use facility leases may remain in place until February 28, 2019, if not terminated earlier by either party. Rental expense to the District is comprised only of the operating and maintenance expense for each facility.

13. DEFERRED COMPENSATION PLAN

The District offers its employees a deferred compensation plan established in accordance with Internal Revenue Code Section 457. Assets and income of the District's plan are administered by a private corporation under contract with the District and are held for the exclusive benefit of the participants and their beneficiaries. Accordingly, the plan's assets and liabilities are not recorded in the District's basic financial statements.

14. RETIREMENT PLAN

In October 2007, the District began offering its employees a 401(a) plan established in accordance with Internal Revenue Code Section 401(a). Assets and income of the District's plan are administered by a private corporation under contract with the District and are held for the exclusive benefit of the participants and their beneficiaries. Accordingly, the plan's assets and liabilities are not recorded in the District's basic financial statements. During the year ended September 30, 2009, the District contributed $173,559 to the plan under the District's retirement program and contributed an additional $25,582 to the plan under the District's deferred compensation matching program.

15. HEALTH CARE COVERAGE

During the year ended September 30, 2009, employees of the District were covered by a health insurance plan. On average, the District contributed $410 per month per employee to the plan during the year ended September 30, 2009. In addition, the District 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.

16. OTHER OPERATING LEASES

The District leases a clinic facility and other equipment under noncancelable long-term leases that expire at various dates through January 2013. The clinic facility lease requires additional payments for common area maintenance and real estate taxes. Rent expense for the year ended September 30, 2009 was $82,415. Future minimum rental payments as of September 30, 2009 are as follows:

2010	$ 51,426
2011	51,426
2012	48,078
2013	16,026
Total	$ 166,956

17. RISK MANAGEMENT

The District'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, 2009, 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.

18. COMMITMENTS AND CONTINGENCIES

The District 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 the District's future financial position or results from operations.

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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 the Travis County Healthcare District (the "District"), a component unit of Travis County, Texas, as of and for the year ended September 30, 2009, which collectively comprise the District's financial statements and have issued our report thereon dated January 14, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the District'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 the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 and 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 Locke + Ritter LLP

January 14, 2010