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

Financial Statements for the Year Ended September 30, 2010 and Independent Auditors' Report

MAXWELL LOCKE & RITTER

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 the discretely presented component unit as of September 30, 2010, 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of Central Health as of September 30, 2010, 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 19, 2011, 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 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.

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 financial statements. Such information, although not a part of the financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the 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 financial statements, and other knowledge we obtained during our audit of the 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.

Maxwell Locke + Ritter LLP

January 19, 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, 2010. 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 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 2010 tax levy for Central Health was 6.74 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. 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 $19.4 million, a 9% increase over prior year net assets.
- During the year, Central Health's total operating revenues were $40.7 million and operating expenses were $92.5 million. Nonoperating revenues, comprised primarily of property tax, were $68.3 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 2010. Central Health's reserve policy will continue to be reviewed annually in association with the budget process.

- Services that were expanded or initiated in fiscal year 2010 are as follows:
  - CommUnityCare had 222,561 patient encounters during the year, a 9.2% increase over fiscal year 2009.
  - Average monthly full benefit enrollment in the Medical Assistance Program was 17,138; an increase of 45% over fiscal year 2009.
  - Central Health funded 17 inpatient mental health beds in fiscal years 2010 and 2009 to assist with over-utilization of the Austin State Hospital; Central Health funded 10 beds in fiscal year 2008.
  - Central Health funded a total of 30,556 medical, dental, and behavioral health visits through community providers such as Blackstock, the Paul Bass Clinic, the Volunteer Health Clinic, Samaritan Health Ministeries, the SIMS Foundation, El Buen Samaritano, People's Community Clinic, Lone Star Circle of Care, and Project Access – this represents a 58% increase in the number of non-CommUnityCare primary care visits over the fiscal year 2009 total of 19,335.

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 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 Central Health. 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 Central Health's assets, liabilities and net assets as of September 30, 2010 and 2009:

TABLE 1
Condensed Statement of Net Assets

	2010	2009	% Fluctuation
Current and other assets	$ 116,009,390	$ 104,661,836	11%
Noncurrent assets	22,309,942	25,541,453	(13%)
Capital assets	95,098,686	94,736,925	<1%
Total assets	233,418,018	224,940,214	4%
Current liabilities	5,595,045	16,509,719	(66%)
Net assets:			
Invested in capital assets	95,098,686	94,736,925	<1%
Unrestricted	132,724,287	113,693,570	17%
Total net assets	$ 227,822,973	$ 208,430,495	9%

As shown in Table 1, net assets were $227.8 million at September 30, 2010 and $208.4 million at September 30, 2009. The change in net assets of $19.4 million is due to the increase of operating and nonoperating revenue (net of nonoperating expense) over operating expense ($16.5 million) and to a restatement of the fiscal year 2010 beginning balance in net assets of $2.9 million (see Note 18 to the financial statements).

Statement of Revenues, Expenses, and Changes in Net Assets

The following table summarizes Central Health's revenues and expenses and changes in net assets during the years ended September 30, 2010 and 2009:

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

	2010	2009	% Fluctuation
Operating revenues:			
Lease revenue – additional rent	$ 39,577,513	$ 25,129,307	57%
Lease revenue – base rent	1,155,396	1,155,396	0%
Total operating revenues	40,732,909	26,284,703	55%
Operating expenses:			
Health care delivery	82,853,821	78,274,127	6%
Salaries and benefits	4,836,950	3,927,428	23%
Other purchased goods and services	2,486,882	1,613,167	54%
Depreciation	2,334,702	2,069,504	13%
Total operating expenses	92,512,355	85,884,226	8%
Operating loss	(51,779,446)	(59,599,523)	13%
Nonoperating revenues, net:			
Net ad valorem tax revenue	66,109,165	64,000,794	3%
Net tobacco settlement revenue	1,390,461	2,573,184	(46%)
Investment income	695,580	2,774,658	(75%)
Other revenue	104,651	1,767,021	(94%)
Total nonoperating revenues, net	68,299,857	71,115,657	(4%)
Change in net assets	16,520,411	11,516,134	43%
Total net assets – beginning of year, as restated	211,302,562	196,914,361	7%
Total net assets – end of year	$ 227,822,973	$ 208,430,495	9%

Central Health's operating revenues were $40.7 million for the year ended September 30, 2010, comprised of $39.6 million in additional rent revenue and $1.1 million in base rent revenue relating to University Medical Center Brackenridge and Austin Women's Hospital.

Central Health's operating loss was $51.8 million for the year ended September 30, 2010. 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 $68.3 million for the year ended September 30, 2010, comprised of net property taxes of $66.1 million, net tobacco settlement revenue of $1.4 million, investment income of $0.7 million and other revenue.

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, 2010 and 2009.

TABLE 3
Capital Assets

	2010	2009	% Fluctuation
Land	$ 10,345,124	$ 10,345,124	0%
Buildings and improvements	91,286,390	91,177,877	<1%
Equipment and furniture	2,843,754	2,451,077	16%
Construction in progress	2,593,602	398,329	551%
Subtotal	107,068,870	104,372,407	3%
Less accumulated depreciation	(11,970,184)	(9,635,482)	24%
Total capital assets, net	$ 95,098,686	$ 94,736,925	<1%

Additional information on Central Health's capital assets can be found in Note 5 of this report.

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 budget as compared to fiscal year 2010 actual amounts.

TABLE 4
Budget vs. Actual

	Budget 2010	Actual 2010	Favorable (Unfavorable) Variance
Operating revenues:			
Lease revenue – additional rent	$ 28,389,113	39,577,513	11,188,400
Lease revenue – base rent	1,155,396	1,155,396	-
Total operating revenues	29,544,509	40,732,909	11,188,400
Operating expenses:			
Health care delivery	86,600,785	82,853,821	3,746,964
Salaries and benefits	5,212,225	4,836,950	375,275
Other purchased goods and services	3,178,046	2,486,882	691,164
Depreciation	2,281,241	2,334,702	(53,461)
Total operating expenses	97,272,297	92,512,355	4,759,942
Operating loss	(67,727,788)	(51,779,446)	15,948,342
Nonoperating revenues (expenses):			
Ad valorem tax revenue	65,403,436	66,843,210	1,439,774
Tax assessment and collection expense	(755,648)	(734,045)	21,603
Tobacco settlement revenue	1,280,000	1,390,461	110,461
Investment income	1,800,000	695,580	(1,104,420)
Other revenue	-	104,651	104,651
Total nonoperating revenues, net	67,727,788	68,299,857	572,069
Change in net assets	$ -	16,520,411	16,520,411

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 $11.2 million and this increase is due to monies received related to increased additional rent from the lease of University Medical Center Brackenridge.

Actual operating expenses were under budget by $4.8 million due to favorable variances in other purchased goods and services, healthcare delivery, and salaries and benefits. As compared to budget, Central Health experienced a favorable variance of $16.5 million.

Economic Conditions and Plan for Fiscal Year 2011

In planning for fiscal year 2011, there were a number of factors Central Health needed to consider, starting with the poor economy at the local, state, and federal levels. Issues that Central Health will need to monitor throughout fiscal year 2011 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 local implementation of national healthcare reform efforts now underway and the State of Texas expected budget shortfall.

- Future funding available under the DSH and UPL programs, pursuant to which Seton pays Central Health additional rent, and the effect of healthcare reform on this funding.

- The continuing expansion of medical education here in Austin.

The Central Health Board of Managers adopted a tax rate of 7.19 cents per $100 valuation for fiscal year 2011, which is the "effective" tax rate, meaning that the increase in the rate over the fiscal year 2010 rate of 6.74 cents per $100 valuation is offset by a corresponding decline in property value.

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, 2010

	Primary Government	Component Unit
	Governmental Activities	CommUnityCare
ASSETS		
Current assets:		
Cash and cash equivalents	$ 27,177	$ 7,780,727
Restricted cash and cash equivalents	2,872,067	-
Short-term investments	96,535,032	-
Ad valorem taxes receivable, net of allowance for uncollectible taxes of $1,270,345	405,580	-
Accounts receivable, net of allowance for doubtful amounts of $8,986,126	-	7,700,585
Component Unit's grants receivable	-	1,045,968
Other receivables	16,097,644	-
Inventory	-	77,943
Prepaid expenses	71,890	154,349
Total current assets	116,009,390	16,759,572
Noncurrent assets:		
Short-term investments restricted for capital acquisition	18,309,942	-
Long-term receivables	4,000,000	-
Capital assets:		
Land	10,345,124	-
Buildings and improvements	91,286,390	-
Equipment and furniture	2,843,754	470,789
Construction in progress	2,593,602	-
Less accumulated depreciation	(11,970,184)	(31,219)
Total capital assets, net	95,098,686	439,570
Total noncurrent assets	117,408,628	439,570
Total assets	233,418,018	17,199,142
LIABILITIES		
Current liabilities:		
Accounts payable	5,079,276	2,049,197
Salaries and benefits payable	437,505	2,606,409
Due to other governments	78,264	-
Other accrued liabilities	-	792,176
Current portion due to Travis County Healthcare District	-	6,748,180
Total current liabilities	5,595,045	12,195,962
Long-term portion due to Travis County Healthcare District	-	4,000,000
Total current and long-term liabilities	5,595,045	16,195,962
NET ASSETS		
Invested in capital assets	95,098,686	-
Unrestricted	132,724,287	1,003,180
Total net assets	$ 227,822,973	$ 1,003,180

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, 2010

	Primary Government	Component Unit
	Governmental Activities	CommUnityCare
Operating revenues:		
Lease revenue - additional rent	$ 39,577,513	$ -
Lease revenue - base rent	1,155,396	-
Patient service revenue	-	13,266,500
Grant revenue	-	5,794,012
Revenue received from Travis County Healthcare District	-	32,523,699
Total operating revenues	40,732,909	51,584,211
Operating expenses:		
Health care delivery	82,853,821	15,832,232
Salaries and benefits	4,836,950	33,256,525
Other purchased goods and services	2,486,882	1,711,176
Depreciation	2,334,702	28,561
Total operating expenses	92,512,355	50,828,494
Operating income (loss)	(51,779,446)	755,717
Nonoperating revenues (expenses):		
Ad valorem tax revenue	66,843,210	-
Tax assessment and collection expense	(734,045)	-
Tobacco settlement revenue, net	1,390,461	-
Investment income	695,580	-
Other revenue	104,651	-
Total nonoperating revenues, net	68,299,857	-
Change in net assets	16,520,411	755,717
Total net assets - beginning of year, as restated	211,302,562	247,463
Total net assets - end of year	$ 227,822,973	$ 1,003,180

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 CASH FLOWS
YEAR ENDED SEPTEMBER 30, 2010

Cash flows from operating activities:	
Cash received from operating leases - additional rent, net	$ 39,577,513
Cash payments for private UPL program	(36,738,733)
Cash received from operating leases - base rent	1,155,396
Cash payments for goods and services	(70,352,396)
Cash payments to employees	(4,753,984)
Net cash used in operating activities	(71,112,204)
Cash flows from noncapital financing activities:	
Ad valorem taxes received	66,785,023
Payments for tax assessment and collection	(734,045)
Tobacco settlement received, net	1,390,461
Other nonoperating revenue received	104,651
Payments to CommUnityCare, net	(2,425,993)
Net cash provided by noncapital financing activities	65,120,097
Cash flows from investing activities:	
Receipts of interest income	256,910
Net proceeds from sale of investment pools	16,557,427
Proceeds from sale of certificates of deposit	200,000
Purchase of investment securities	(56,000,000)
Proceeds from maturities of investment securities	37,000,000
Purchase of capital assets	(2,070,914)
Net cash used in investing activities	(4,056,577)
Net decrease in cash and cash equivalents	(10,048,684)
Cash and cash equivalents - beginning of year	12,947,928
Cash and cash equivalents - end of year	$ 2,899,244

Reconciliation of operating loss to net cash used in operating activities:	
Operating loss	$ (51,779,446)
Adjustments to reconcile operating loss to net cash used in operating activities:	
Depreciation expense	2,334,702
Changes in operating assets and liabilities that provided (used) cash:	
Other receivables	(10,755,332)
Prepaid expenses	2,546
Accounts payable	1,539,108
Cash overdraft	163,487
Private UPL payable	(12,738,733)
Salaries and benefits payable	82,966
Due to other governments	38,498
Net cash used in operating activities	$ (71,112,204)

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

1. ORGANIZATION AND MISSION

Travis County Healthcare District (doing business as and hereinafter referred to as "Central Health"), 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 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.

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 with the ability to pay. 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 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 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, 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. 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 - Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed by Central Health 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.

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 - 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 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 - 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.

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. 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, 2010, Central Health incurred certain renovation and construction costs totaling $625,549; these renovation and construction costs were disbursed subsequent to the year ended September 30, 2010.

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. Central Health 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 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 $1,390,461 associated with the settlement in the year ended September 30, 2010. Settlement revenues for fiscal year 2010 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, 2010, Central Health 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 $628,190 and $266,746, respectively. Such amounts represent their respective share of total local healthcare expenditures claimed for the year ended September 30, 2010.

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

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 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 102% 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 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 Central Health, in a fiduciary account held in the name of JPMorgan Chase and Central Health and pledged to Central Health. During fiscal year 2010, there were two instances in April 2010 and September 2010 where the bank balances were not fully collateralized at all times. As of September 30, 2010, 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, 2010, 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.

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, 2010, Central Health had the following investments:

Type	Fair Value	Weighted Average Maturity (Days)
Local government investment pools	$ 39,073,348	1
U.S. government agencies	68,556,446	287
U.S. Treasury notes	7,215,180	242
Total fair value	$ 114,844,974	
Portfolio weighted average maturity		211

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 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. 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, 2010	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. 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, 2010:		
TexPool	27%	60%
Other local government investment pools	7%	60%
U.S. government agencies	60%	75%
U.S. treasury notes	6%	100%

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, 2010, Central Health's investments which require disclosure are as follows:

	Fair Value	Percentage of Portfolio
Investments at September 30, 2010:		
Federal Home Loan Bank	$ 28,407,446	25%
Federal Home Loan Mortgage Corporation	20,031,780	18%
Federal National Mortgage Association	13,101,890	11%
U.S. Treasury Notes	7,215,180	6%
Federal Farm Credit Bank	7,015,330	6%

4. DISAGGREGATION OF RECEIVABLE BALANCES

Central Health's receivables, including the applicable allowances, are comprised of the following as of September 30, 2010:

	Taxes	Due from CommUnity-Care	Other	Total
Total	$ 1,675,925	10,748,180	9,349,464	21,773,569
Less:				
Allowance for uncollectibles	(203,977)	-	-	(203,977)
Allowance for long-term collections	(1,066,368)	-	-	(1,066,368)
Total, net	$ 405,580	10,748,180	9,349,464	20,503,224
Amounts not scheduled for collection during the subsequent year	$ -	4,000,000	-	4,000,000

At September 30, 2010, the due from CommUnityCare balance of $10,748,180 is comprised of $6,748,180 in current assets and $4,000,000 in noncurrent assets. At September 30, 2010, the other receivable balance is comprised of $489,123 of accrued interest on investments, approximately $6 million in receivables from Seton and approximately $2.8 million in intergovernmental transfer receivables.

5. CAPITAL ASSETS

Central Health's capital assets are comprised of the following as of September 30, 2010:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital assets not being depreciated:				
Land	$ 10,345,124	-	-	10,345,124
Construction in progress	398,329	2,195,273	-	2,593,602
Total capital assets not being depreciated	10,743,453	2,195,273	-	12,938,726
Capital assets being depreciated:				
Building and improvements	91,177,877	108,513	-	91,286,390
Equipment and furniture	2,451,077	392,677	-	2,843,754
Total capital assets being depreciated	93,628,954	501,190	-	94,130,144
Less accumulated depreciation for:				
Building and improvements	(9,160,654)	(1,890,455)	-	(11,051,109)
Equipment and furniture	(474,828)	(444,247)	-	(919,075)
Total accumulated depreciation	(9,635,482)	(2,334,702)	-	(11,970,184)
Total capital assets being depreciated	83,993,472	(1,833,512)	-	82,159,960
Capital assets, net	$ 94,736,925	361,761	-	95,098,686

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.

6. 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 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 Central Health.

The lease provides that Seton will pay Central Health base or minimum rent, which in fiscal year 2010 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 a portion of those payments 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 Upper Payment Limit ("UPL") program, which 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.

Central Health recognizes all additional rent received as operating revenue in the period of receipt. In fiscal year 2010, Central Health received $39,577,513 in additional rent from the operating lease with Seton. At September 30, 2010, 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 $10,294,361.

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 $3,817,304 in fiscal year 2010 under the Charity Care Program.

Under the Home Health Services Program, Central Health paid Seton $250,000 for the year ended September 30, 2010 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 $33,887,724 in fiscal year 2010 for the private Upper Payment Limit program, of which $24,000,000 was expensed in fiscal year 2010 and the remainder was expensed in prior years under Central Health's former method of expensing these amounts (see Note 8 and Note 18 for additional information on the UPL program).

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

2011	$ 1,096,656
2012	1,096,656
2013	1,096,656
2014	1,096,656
2015	1,096,656
Thereafter	11,266,560
Total	$ 16,749,840

7. 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, 2010, 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, 2010 for charity care provided at Austin Women's Hospital.

At September 30, 2010, Central Health's investment in Austin Women's Hospital consists of buildings and improvements valued at $3,400,000 less accumulated depreciation of $408,000.

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

2011	$ 58,740
2012	19,580
Total	$ 78,320

8. 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, 2010, Central Health paid $33,887,724 for IGTs made under the Private UPL program, of which $24,000,000 was expensed in fiscal year 2010 and the remainder was expensed in prior years under Central Health's former method of expensing these amounts. See Note 18 for a discussion of a restatement in fiscal year 2010 to Central Health's net assets related to the Private UPL program.

9. INTERLOCAL AGREEMENT WITH THE CITY OF AUSTIN

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

Central Health 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 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 that expires on February 28, 2014, under essentially the same terms and conditions as those of the mixed-use facilities.

10. 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, 2009, upon which the October 2009 levy was based, was $100,381,064,310. Central Health levied taxes based on a tax rate of $0.0674 per $100 of assessed valuation.

11. 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 collections services discussed in Note 10. For the year ended September 30, 2010, $423,258 is included in other purchased goods and services for the legal and other services. For the year ended September 30, 2010, $392,901 is included in tax assessment and collection expense for the tax collections services. At September 30, 2010, $78,264 is included in due to other governments related to this agreement.

During fiscal year 2006, Central Health 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, 2010, fees of $47,187 were included in other purchased goods and services 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.

12. 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.

13. 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, 2010, Central Health contributed $200,536 to the plan under Central Health’s retirement program and contributed an additional $32,146 to the plan under Central Health’s deferred compensation matching program.

14. HEALTH CARE COVERAGE

During the year ended September 30, 2010, employees of Central Health were covered by a health insurance plan. On average, Central Health contributed $393 per month per employee to the plan during the year ended September 30, 2010. 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.

15. OTHER OPERATING LEASES

Central Health 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, 2010 was $62,584. Future minimum rental payments as of September 30, 2010 are as follows:

2011	$ 51,426
2012	48,078
2013	16,026
Total	$ 115,530

16. 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, 2010, 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.

17. 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.

18. RESTATEMENT OF NET ASSETS

As discussed in Note 8, Central Health participates in the Private UPL program, under which it funds IGTs that result in payments to participating hospitals in Travis County. In prior years, Central Health expensed amounts that were deposited in its program-related bank account and showed amounts in the account as restricted cash and a corresponding liability on its Statement of Net Assets.

In fiscal year 2010, Central Health determined that the funds deposited in its program-related bank account are not payable until requested as an IGT by the State Comptroller's Office. Furthermore, although Central Health intends to continue funding the private UPL IGT, it is not legally obligated to do so. For these reasons, Central Health no longer records an expense upon depositing funds into the account but rather waits until the IGT is made to record the expense. As a result of this change, Central Health is restating its net assets to increase them by $2,872,067, the amount in the program-related bank account at September 30, 2010. Net Assets at September 30, 2009, as previously reported, has been restated as follows:

Beginning balance, as previously reported	$ 208,430,495
Effect of restatement of IGT expense	2,872,067
Beginning balance, as restated	$ 211,302,562

19. SUBSEQUENT EVENT

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.

Central Health's Statement of Net Assets as of September 30, 2010 has a balance in the noncurrent asset section of $18,309,942 in "short-term investments restricted for capital acquisition," which includes the unspent portion of the estimated $18 million construction cost of the NCCHC. Due to the award of this grant, Central Health will reduce its balance in restricted short-term investments by $12 million and increase its balance in short-term investments correspondingly in the current asset section of the Statement of Net Assets, for reporting periods after September 30, 2010.

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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, 2010 which collectively comprise Central Health's financial statements and have issued our report thereon dated January 19, 2011. 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 Central Health's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Central Health's internal control 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 a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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.

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, others within the entity, 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 19, 2011